

Private School Choice Programs In Depth Training

June 24, 2014



Financial Information Report (FIR)

OBJECTIVES:

- 1) Explain the flow of information in the FIR.
- 2) Provide information on difficult to audit sections.
- 3) Explain common pitfalls.
- 4) Provide recommended and required audit practices.



Agenda

- ▶ General FIR overview
- ▶ Preliminary procedures
- ▶ Schedule Review
- ▶ Concluding

General FIR Overview



Voucher Payments

- ▶ During the school year, the department pays the school the maximum voucher amount for each pupil—\$6,442 for the 2013–14 school year.
- ▶ The FIR determines the amount equal to the private school's operating and debt service cost per pupil that is related to educational programming.
- ▶ The department pays the lesser of the maximum voucher amount and the school's per pupil cost.
 - No payment may be made to a school that has ceased educational programming prior to the payment date (Sept, Nov, and Feb payment) or prior to the scheduled end of instruction (May).

Determining Cost per Pupil

- ▶ Net Educational Programming Cost is the cost of providing kindergarten through grade 12 educational programs less offsetting revenues and debt proceeds. Net eligible educational programming cost may not include penalties, fines, fees or interest charges required to be paid by the private school for not complying with any law or regulation. [PI 35.02 (12m)]
- ▶ Must be actual expenditures or accruals for future payments.

Calculation of Choice Payment Eligibility

$$\frac{\text{Eligible Educational Programming Cost} - \text{Offsetting Revenue}}{\text{All Pupil FTE}} =$$

Eligible Per Pupil Cost

$$\# \text{ of Choice Pupils} \times \text{the Eligible per Pupil Cost up to the Maximum Voucher Amt} =$$

Choice Payment Eligibility

(PI 35.045 (1)(g) 2 & 3)

Determining Cost per Pupil

- ▶ If the result is greater than the amount paid and retained by the school, an adjustment payment shall be made to the private school within 60 days of the FIR being certified by the department.
- ▶ If the result is less than the amount of the payments received and retained by the school, the school shall refund the amount of any overpayment to the department within 60 days of notification.

FIR Accounting

- ▶ Basis of accounting – accrual EXCEPT:
 - a) Debt proceeds are included in revenue when received
 - b) Long-term debt principal and interest payments are included in expenditures when payments are due.
 - c) Summer school program revenues and expenditures are reported in the fiscal year corresponding to the pupil membership used for program payment purposes.
 - d) Withdrawals as salary compensation by individuals with a proprietary interest in the private school shall be included in expenditures only when identified as such on the private school's records and made by check on or before June 30.
 - e) Acquisition of capital outlay items are reported in expenditures when acquired.

FIR Eligible Costs

- ▶ In order to include something as an eligible cost, it must relate to a cash disbursement (either now or projected for the future).
 - Bad debt expense is not an eligible cost.
 - Donations of someone's time, capital assets, supplies, or other items are not eligible costs.
 - If a previously included cost is forgiven or it is determined it was not an appropriate cost, the previous year's eligible cost must be reduced. The auditor must disclose these situations in the footnotes.

Cost Allocation Examples

- ▶ Day care & school operations
- ▶ Parish & school operations
- ▶ Central administration for two or more schools
- ▶ Transportation provided to the school's pupils and other schools' pupils

Do not allocate for Choice versus Non-Choice pupil costs

Required Allocation Bases

- Instruction/pupil support–FTE or time spent
- Administration Costs–Direct program costs, time spent or FTE
- Accounting–Number of transactions or time spent
- Facility operation & maintenance–Floor space operated, space occupied over time or labor hours
- Pupil transportation–Miles driven, pupil miles driven or driver hours

PI 35.045 (3) (a)

School Requirements

- ▶ Have a double entry financial accounting system that:
 - Enables preparation of the FIR
 - Provides information to fiscally manage the school
 - Identifies all sources of funding used in the schools operation
- ▶ Balance the required financial accounting system and provide the auditor with a trial balance of account balances.
- ▶ Furnish all other financial and pupil records the auditor considers necessary to provide the audit opinion statement.

School Requirements (cont)

- ▶ Approve adjustment entries recommended by the auditor recorded in the school's financial accounting records.
- ▶ Retain all financial records relating to the report required for at least 3 years from date of the department's certification of the FIR unless required to retain longer by the department or a law enforcement agency
- ▶ Provide the department access to original records referenced in the auditor's working papers and provide copies as requested by the department

What Level is the FIR Prepared at

- ▶ The school may determine at what level they would like to complete the FIR.
- ▶ If they are the same legal entity as the church they may either:
 - Complete the FIR with all activities for the school and church. All items included in the FIR must be audited.
 - Complete the FIR with the school only activities.

Preliminary Procedures

- 1) Preliminary Analytics & Control Evaluation
- 2) Materiality Assessment
- 3) Determination of Testing



Analytical procedures

▶ Planning the Audit

- Understanding of the school and the transactions and events that occurred since the last audit
- Identify areas that may represent specific risks relevant to the audit
- Basis for additional inquiries and effective planning
- Procedures
 - Reviewing changes in account balances from prior to current year using general ledger or preliminary working trial balance

Preliminary Analytic Procedures

- ▶ General things to look for specific to schools participating in the choice program:
 - What is motivation?
 - Cost per pupil
 - Payables at year end that may not have been incurred in the current year
 - Fixed assets not reported when acquired
 - First year school – start up cost
 - Under-reporting offsetting revenues

Preliminary Analytic Procedures

▶ Recommended Analytic Procedures

- Comparison of net program assets year to year
- Comparison of total cost year to year
- Comparison of offsetting revenues year to year
- Compare eligible programming cost by category with prior year
- Determine percentage of eligible costs to total cost and compare to prior year
- Determine eligible costs by category as a percentage of total costs
- Determine net eligible programming costs as a percent of pupil FTE
- Teacher increase/decrease to enrollment changes and payroll changes

Preliminary Analytic Procedures

- ▶ Recommended Preliminary Procedures
 - Identify accounts that need further analysis
 - Identify year end adjustments not made (payables, receivables)
 - Identify accounts with significant or unusual amounts

Evaluate Controls Surrounding:

- ▶ Number of pupils
- ▶ Expenditures (including fixed assets):
 - Cash disbursements–supporting documentation
 - Review of expenditures
 - Determination if net eligible programming costs
 - Capitalization & amortization review
 - Determination of ineligible items
- ▶ Debt
 - Related party evaluation
 - Proper recording including capital vs operating debt

Evaluate Controls Surrounding: (cont)

▶ Payroll

- Recording of time
- Disbursement of pay
- Payment of IRS, DOR & DWD payroll withholdings/payments
- Recording of benefits and payment

▶ Cash Receipts/Revenue:

- Controls surrounding receipt of cash
- Bank statements & reconciliations
- Review of cash receipts
- Recording of and determination of offsetting revenue

Evaluate Controls Surrounding: (cont)

- ▶ Related party transactions
 - Acceptable interest rate
 - Properly recorded and payments appropriate
- ▶ Financial Reporting
 - Appropriate level of knowledge for financial reporting
 - Correct recording within the FIR

Consider control testing completed in the
Fiscal & Internal Control Practices Report

Evaluation Techniques & Considerations

- ▶ Key risks/areas in the process where items can go wrong
- ▶ Fraud schemes
- ▶ Inquires of management
- ▶ Team discussion
- ▶ Knowledge of industry/client
- ▶ Prior year errors
- ▶ Personnel placement

MATERIALITY

(VARIANCE LIMITATION)

Net Eligible Educational Programming Cost (NEEP)	% of NEEP	Materiality
Less than \$100,000	4%	\$0–\$3,999
\$100,000–\$1 million	2%	\$2,000–\$19,999
\$1 million–\$3 million	1.5%	\$15,000–\$44,999
\$3 million–\$5 million	1%	\$30,000–\$49,999
\$5 million–\$10 million	.7%	\$35,000–\$69,999
Over \$10 million	.5%	\$50,000 and up

PI 35.046 (3)(a)

Required Testing-PI 35.046 (3)(b)

- ⇒ ACCOUNTS – with a balance at least 75% of variance limitation
 - ⇒ All trial balance accounts over the threshold should be tested
 - ⇒ FIR balances should be reviewed to determine that all balances were tested if material in aggregate

- ⇒ INDIVIDUAL TRANSACTIONS – Those at least 20% of variance limitation
 - ⇒ PBC request: All transactions above the 20% materiality and the related supporting documentation

Required General Procedures

- ▶ Trace all entries on the FIR to the trial balance (PI 35.046(3)(f))
- ▶ Evaluate if there is substantial doubt that the school will have the ability to continue as a going concern (PI 35.046(5))

So what materiality does DPI use?

- ▶ Any changes that would be material enough to effect the per pupil cost
 - Per pupil cost < Maximum voucher amount
All transactions are material
 - Per pupil cost > Maximum voucher amount
Transactions individually or in aggregate that would reduce the per pupil cost below the maximum voucher amount
- ▶ The balance continues to effect future periods (fixed assets, debt, etc)
- ▶ No materiality with regard to Choice pupil numbers

Detail Procedures vs Analytics

- ▶ Consider risk of material misstatement in the balance
- ▶ Consider materiality of the balance
- ▶ Evaluate type of transactions included:
 - All non educational programming costs are excluded
 - Likelihood that ineligible expenses are included as eligible
- ▶ Coverage provided by testing transactions above 20%
- ▶ Other procedures performed:
 - Cut off testing
 - Fiscal & Internal Control Practices Report

Detail Procedures vs Analytics (cont)

- ▶ Reasonable ability to perform an analytic on the balance
- ▶ Likelihood of items being buried in the balance
- ▶ Prior year errors should be considered
- ▶ Testing must include an evaluation of eligible educational programming costs

FIR Sample

“...plan and perform the audit to obtain reasonable assurance whether the FIR is free from material misstatement, and that the pupil cost and any adjustment payment due to or due from the School for its participation in the [MPCP or RPCP] is fairly presented.”

Samples Could be Used for:

- ▶ Expense testing—including determining if the expense is an eligible cost
- ▶ Capital asset expenditures
- ▶ Financing sources/offsetting revenue

Required Testing-PI 35.046 (2)

- ⇒ Auditor shall develop a written audit program identifying the steps and procedures followed in conducting the audit. The program shall include all procedures specified in sub.(3) and such other procedures agreed upon by the auditor and the department, and any other procedures the auditor considers necessary.
- ⇒ Auditor shall retain working papers at least 3 years from date department certifies the FIR unless requested to retain longer by the department or a law enforcement agency

- ▶ The FIR is organized in a “completion sequence” or CS order. The data is completed back to front. The data in the back fills the information in the front.
- ▶ Certain Schedule’s screen prints may have 2012–13 school year dates. In this case, the schedule has not changed from the previous year.

Calculation of Aid Paid

Schedule 2: Per Pupil Cost Computation
Schedule 1: Program Adjustment Due From or To
State



Schedule 2A—Per Pupil Cost

Schedule 2A: Per Pupil Cost Computation
Year Ending June 30, 2014

		NET ELIGIBLE PROGRAM COST			
Line	Program Cost				Amount
1	Eligible Program Cost			Schedule 5A Line 52	
2	Less: Operating Expense Financed by Capital Asset Debt			Schedule 9 Line 4	
3	Less: Offsetting Revenue			Schedule 4 Line 23	
4	Less: 2013 Summer School Net Eligible Program Costs Included Above				
5	Less: 2014 Summer School Net Eligible Program Costs Included Above				
6	NET ELIGIBLE PROGRAM COST			Lines 1 less Lines 2-5	
7	Reserve Adjustment				
8	NET ELIGIBLE PROGRAM COST WITH RESERVE ADJ			Line 6 plus Line 7	
		ALL PUPIL COUNT—SEPTEMBER			
Line	September Count		FTE Factor	Audited All Pupil Count	All Pupil FTE
16	TOTAL SEPTEMBER COUNTS				
		ALL PUPIL COUNT—JANUARY			
Line	January Count		FTE Factor	Audited All Pupil Count	All Pupil FTE
24	TOTAL JANUARY COUNTS				
		MEMBERSHIP FTE BASIS			
25	All Pupil FTE Average		FTE Average Lines 16 and 24		
		PUPIL COST			
26	PER PUPIL COST		Line 8 Divided by Line 25		

Eligible Program Cost comes from Schedule 5 and includes operating expenses, fixed assets, and debt

Offsetting Revenue: Schedule 4

Schedule 2A–All Pupil Counts

ALL PUPIL COUNT—SEPTEMBER				
Line	September Count	FTE Factor	Audited All Pupil Count	All Pupil FTE
9	4-Year Old Kindergarten / 437 Hrs	0.50		
10	4-Year Old Kindergarten / 437 + 87.5 Hrs	0.60		
11	1/2 Day 5-Year Old Kindergarten	0.50		
12	3 Full Day 5-Year Old Kindergarten	0.60		
13	4 Full Day 5-Year Old Kindergarten	0.80		
14	5 Full Day 5-Year Old Kindergarten	1.00		
15	Grades 1-12	1.00		
16	TOTAL SEPTEMBER COUNTS			
ALL PUPIL COUNT—JANUARY				
Line	January Count	FTE Factor	Audited All Pupil Count	All Pupil FTE
17	4-Year Old Kindergarten / 437 Hrs	0.50		
18	4-Year Old Kindergarten / 437 + 87.5 Hrs	0.60		
19	1/2 Day 5-Year Old Kindergarten	0.50		
20	3 Full Day 5-Year Old Kindergarten	0.60		
21	4 Full Day 5-Year Old Kindergarten	0.80		
22	5 Full Day 5-Year Old Kindergarten	1.00		
23	Grades 1-12	1.00		
24	TOTAL JANUARY COUNTS			
MEMBERSHIP FTE BASIS				
25	All Pupil FTE Average	FTE Average Lines 16 and 24		
PUPIL COST				

- ▶ The All Pupil count data comes from Schedule 10

Schedule 2A—Calculation of Choice Payment Eligibility

Schedule 2A: Per Pupil Cost Computation
Year Ending June 30, 2014

NET ELIGIBLE PROGRAM COST			
Line	Program Cost		Amount
1	Eligible Program Cost	Schedule 5A Line 52	
2	Less: Operating Expense Financed by Capital Asset Debt	Schedule 9 Line 4	
3	Less: Offsetting Revenue	Schedule 4 Line 23	
4	Less: 2013 Summer School Net Eligible Program Costs Included Above		
5	Less: 2014 Summer School Net Eligible Program Costs Included Above		
6	NET ELIGIBLE PROGRAM COST	Lines 1 less Lines 2-5	
7	Reserve Adjustment		
8	NET ELIGIBLE PROGRAM COST WITH RESERVE ADJ	Line 6 plus Line 7	

ALL PUPIL COUNT—SEPTEMBER				
Line	September Count	FTE Factor	Audited All Pupil Count	All Pupil FTE
16	TOTAL SEPTEMBER COUNTS			

ALL PUPIL COUNT—JANUARY				
Line	January Count	FTE Factor	Audited All Pupil Count	All Pupil FTE
24	TOTAL JANUARY COUNTS			

MEMBERSHIP FTE BASIS			
25	All Pupil FTE Average	FTE Average Lines 16 and 24	

PUPIL COST			
26	PER PUPIL COST	Line 8 Divided by Line 25	

Net Eligible
Educational
Programming
Cost

Divided By

All Pupil FTE
(Avg Sept & Jan
Choice and non
Choice pupil count)

=

Eligible Per
Pupil Cost

Schedule 1 –Choice Pupil FTE

Schedule 1: Program Adjustment Due from (to) State
Year Ending June 30, 2014

CHOICE PUPIL COUNT—SEPTEMBER				
Line	September Count	FTE Factor	Audited Choice Pupil Count	Choice Pupil FTE
1	4-Year Old Kindergarten / 437 HRS	0.50	0	
2	4-Year Old Kindergarten / 437 Hours + 87.5 Hrs. Outreach	0.60	0	
3	1/2 Day 5-Year Old Kindergarten	0.50	0	
4	3 Full Day 5-Year Old Kindergarten	0.60	0	
5	4 Full Day 5-Year Old Kindergarten	0.80	0	
6	5 Full Day 5-Year Old Kindergarten	1.00	0	
7	Grades 1-12	1.00	0	
8	SEPTEMBER COUNT TOTALS		0	
CHOICE PUPIL COUNT—JANUARY				
Line	January Count	FTE Factor	Audited Choice Pupil Count	Choice Pupil FTE
9	4-Year Old Kindergarten / 437 HRS	0.50	0	
10	4-Year Old Kindergarten / 437 Hours + 87.5 Hrs. Outreach	0.60	0	
11	1/2 Day 5-Year Old Kindergarten	0.50	0	
12	3 Full Day 5-Year Old Kindergarten	0.60	0	
13	4 Full Day 5-Year Old Kindergarten	0.80	0	
14	5 Full Day 5-Year Old Kindergarten	1.00	0	
15	Grades 1-12	1.00	0	
16	JANUARY COUNT TOTALS		0	

- ▶ The Choice pupil count data comes from Schedule 11

- 1) Determine the lesser of the school's per pupil cost and the maximum voucher amount
- 2) Multiply it by the school's Choice only Pupil FTE Average
- 3) Compare to the Choice Payments Retained (Quarterly payments and 3rd Friday adjustment payment)

Schedule 1: Program Adjustment Due from (to) State Year Ending June 30, 2014				
CHOICE PUPIL COUNT—SEPTEMBER				
Line	September Count	FTE Factor	Audited Choice Pupil Count	Choice Pupil FTE
8	SEPTEMBER COUNT TOTALS		0	
CHOICE PUPIL COUNT—JANUARY				
Line	January Count	FTE Factor	Audited Choice Pupil Count	Choice Pupil FTE
16	JANUARY COUNT TOTALS		0	
ADJUSTMENT DUE FROM (TO) STATE				
Line				Amount
17	Choice Pupil FTE Average	Average Lines 8 and 16 (FTE Column)		0.00
18	Per Pupil Cost	Schedule 2 Line 26		0
19	Maximum Voucher Amount	DPI Identified Amount		6,442
20	Eligible Per Pupil Amount	Lesser of Line 18 or 19		0
21	Regular School Year Payment Eligibility	Line 20 Multiplied by Line 17		0
22	Regular School Year Choice Payment Checks Retained	Schedule 4 Line 2		0
23	Regular School Year Adjustment Amount Due From (To) State	Line 21 plus 22		0
24	Summer School Adjustment Amount Due From (To) State	Schedule 2B Line 10		0
25	ADJUSTMENT AMOUNT DUE FROM (TO) STATE	Line 23 plus Line 24		0

New Maximum Voucher Amounts

- ▶ In 2014–15 pupils in K4–8 will be paid \$7,210 per 1 FTE and pupils in 9–12 will be paid \$7,856 during the year.
- ▶ If the school has students in both groups, a weighted average maximum allowed voucher amount will be calculated as part of the FIR.
- ▶ After 2014–15, the maximum voucher amount will be adjusted each year using the change in the public school per pupil cost.

Reason for Payments Back to DPI

- ▶ School's per pupil cost is below the maximum voucher amount (\$6,442 for 2013–14 school year).
- ▶ Pupils are determined ineligible who the school originally determined were eligible for payment.

Reason for Payments Back to DPI– Example

- ▶ The school's per pupil cost is \$6,400. If the Choice Pupil FTE is 100, how much would the school owe back?
- ▶ The school originally included 95 pupils as eligible Choice pupils in the 2nd Friday in January count. If the auditor identified that 5 pupils in Grades 1–12 were not eligible, how much would the school owe back?

Pupil Count Data

Schedule 11: Choice Pupils

Schedule 10: All Pupils



Schedule 10 & 11

KEY AUDIT RISKS

- ▶ Sch 11: Reducing the all pupil count for non-Choice pupils will increase the per pupil cost.
- ▶ Sch 10: Increasing the Choice count for pupils not in attendance/not eligible.

HOW TO ADDRESS RISKS

- ▶ Enrollment audit testing of non-Choice pupils. Ensure reviewing original classroom records.
- ▶ Testing of attendance records. Ensure reviewing original classroom records.
- ▶ Exercise professional skepticism if the records appear to be changed/applications appear to be completed by the same person.

Schedule 11: Membership Audit Summary—Choice Pupils Only

Year Ending June 30, 2013

CHOICE THIRD FRIDAY SEPTEMBER COUNT - SEPTEMBER 21, 2012

Line	Count Category	Per DPI (a)	Per Audit (b)	Variance
1	4-Year Old Kindergarten / 437 Hours			-
2	4-Year Old Kindergarten / 437 Hours + 87.5 Hours Outreach			-
3	5-Year Old Kindergarten / .5 Day			-
4	5-Year Old Kindergarten / 3 Day			-
5	5-Year Old Kindergarten / 4 Day			-
6	5-Year Old Kindergarten / 5 Day			-
7	Grades 1 -12			-
8	TOTAL CHOICE PUPILS ONLY	-	-	-

CHOICE SECOND FRIDAY JANUARY COUNT—JANUARY 11, 2013

Line	Count Category	Per DPI (c)	Per Audit (d)	Variance
9	4-Year Old Kindergarten / 437 Hours			-
10	4-Year Old Kindergarten / 437 Hours + 87.5 Hours Outreach			-
11	5-Year Old Kindergarten / .5 Day			-
12	5-Year Old Kindergarten / 3 Day			-
13	5-Year Old Kindergarten / 4 Day			-
14	5-Year Old Kindergarten / 5 Day			-
15	Grades 1 -12			-
16	TOTAL CHOICE PUPILS ONLY	-	-	-

(a) DPI accepted September enrollment audit counts per DPI certification.

(b) For September count "Per Audit" must agree with "Per DPI" unless prior written e-mail approval granted by DPI. Attach copy of e-mail to report.

(c) The count is per the DPI count provided. This amount should be reduced for any checks the school returned as ineligible subsequent to DPI providing the count.

(d) This amount must match the January Enrollment "Per Audit" column. It does not include any pupils identified as "Application Pending." Final determination regarding the eligibility of such pupils is made by the DPI.

➤ The January count must match the enrollment audit Sch 1 numbers

➤ The "Per DPI" and September "Per Audit" numbers must match the count provided by DPI via email

Schedule 10: Membership Audit Summary—All Pupils
Year Ending June 30, 2013

ALL PUPIL THIRD FRIDAY SEPTEMBER COUNT - SEPTEMBER 21, 2012				
Line	Count Category	Per DPI	Per Audit	Variance
1	4-Year Old Kindergarten / 437 Hours			-
2	4-Year Old Kindergarten / 437 Hours + 87.5 Hours Outreach			-
3	5-Year Old Kindergarten / .5 Day			-
4	5-Year Old Kindergarten / 3 Day			-
5	5-Year Old Kindergarten / 4 Day			-
6	5-Year Old Kindergarten / 5 Day			-
7	Grades 1 -12			-
8	TOTAL ALL PUPILS	ERROR	-	-

ALL PUPIL SECOND FRIDAY JANUARY COUNT—JANUARY 11, 2013				
Line	Count Category	Per DPI	Per Audit	Variance
9	4-Year Old Kindergarten / 437 Hours			-
10	4-Year Old Kindergarten / 437 Hours + 87.5 Hours Outreach			-
11	5-Year Old Kindergarten / .5 Day			-
12	5-Year Old Kindergarten / 3 Day			-
13	5-Year Old Kindergarten / 4 Day			-
14	5-Year Old Kindergarten / 5 Day			-
15	Grades 1 -12			-
16	TOTAL ALL PUPILS	-	-	-

If an "ERROR" message appears, the "All Pupil" Count is less than equivalent Choice Count on Schedule 11 and a correction in either the Choice and/or the All Pupil Count is required.

- An error will show if the amount of pupils on Sch 11 (all pupils) is more than the amount of pupils on Sch 10 (Choice pupils)
- The January count must match the enrollment audit Sch 1 numbers
- The "Per DPI" and September "Per Audit" numbers must match the count provided by DPI via email

Debt

Schedule 9: Choice Eligible Debt Proceeds Used
Schedule 8: Capital Asset Debt



Borrowing

- Includes loans from an individual–
 - Must be a **CASH** deposit into the school's or operating organization's Choice depository account
 - Unpaid reimbursements due related parties or employees are not considered loans

PI 35.045 (3)(b)5

Debt Summary

Type of Debt	Description of Debt	Costs Included as Choice Eligible Costs	Schedule
<i>Capital Asset Debt</i>	Debt used to finance the purchase of educational media, equipment, buildings and premises, and leasehold improvements.	<ul style="list-style-type: none"> Debt principal payments paid during year Interest paid during year 	8
<i>“Cash Flow” Unrelated Party Debt</i>	This is debt that is obtained from unrelated party lenders that is used to finance general operations (salaries, supplies, rent, etc).	<ul style="list-style-type: none"> Interest incurred for the year-Accrued interest 	9
<i>“Cash Flow” Related Party Debt</i>	<p>This is debt that is obtained from related party lenders that is used to finance general operations (salaries, supplies, rent, etc). Related parties include those who have a proprietary interest in the school or their relatives and operating organizations of the school. Related parties can also include board members, administrators, teachers/staff, and others with a relationship with the school.</p>	None. All costs are ineligible. DPI will check costs for reasonableness.	5B

Related Party Borrowing

Not eligible except if:

- From school's endowment fund
- From members of the Board of Directors or serving in an advisory capacity that have no proprietary interest in the school

**INTEREST RATE LIMITED TO PRIME RATE ON
BORROWING DATE**

Ineligible Related Party Cost

Debt principal and interest payments to:

- the private school's owners,
- sponsoring organization, or
- another related party as a result of internal financing from other funds of the school or other less-than-an-arms-length transaction.

Less than an arms length transaction

PI 35.02 (10m) “Less–than–an–arms–length transaction” means a transaction where one party to the transaction is able to control or substantially influence the actions of the other. Such transactions include but are not limited to those between any of the following:

- (a) Administrative and operating locations of the private school.
 - (b) The private school and any other organization that has as an owner, officer, or director an individual who serves in any of these capacities at the private school.
 - (c) The private school and an owner, director, trustee, officer, or key employee of the private school or an immediate family member of an owner, director, trustee, officer, or key employee of the private school either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.
- ▶ PI 35.02 (17m) “Related parties” has the meaning given in generally accepted auditing standards.
 - ▶ AU-C 550.10 defines a related party based on the definition in GAAP.

Who is a Related Party–Individuals

- ▶ an owner, director, trustee, officer, or key employee of the school;
- ▶ an immediate family member of an owner, director, trustee, officer, or key employee of the school;
- ▶ an individual who has a material financial interest in the school;
- ▶ an individual that has significant influence over the school;
- ▶ Consider:
 - Teachers
 - Office staff
 - Administrators
 - Board of directors
 - Those closely related to these individuals

Who is a Related Party– Organizations

- ▶ a corporation, trust, or similar entity or organization in which an individual who is a related party holds a material or controlling interest;
- ▶ a corporation, trust or similar entity or organization in which any of the individuals who are a related party serve as an officer or director of the organization;
- ▶ a corporation, trust or similar entity or organization that has a financial interest in the school;
- ▶ a corporation, trust or similar entity or organization in which the school has a financial interest;
- ▶ a corporation, trust or similar entity or organization involved in the day– to–day operations of the school; or
- ▶ a corporation, trust or similar entity or organization existing exclusively or primarily for the benefit of the school.
 - Be sure to evaluate form and substance

Who is a Related Party– Organizations (cont)

- ▶ Generally Includes:
 - Operating organization
 - Church associated with the school
- ▶ Generally Excludes:
 - Archdiocese loans
 - WELs loans
 - Lutheran Extension funds

Schedule 5B: Choice Non-eligible Transactions

Year Ending June 30, 2013



◀ Schedule information

RELATED PARTY DEBT TRANSACTIONS						
Line	Related Party and Less-Than-Arms Length Debt Transactions Related Party Name and Debt Identification	A Principal Outstanding at Beginning of Year	B Principal Incurred During Year	C Principal Paid During Year	D Principal Outstanding at End of Year	E Total Interest Paid During Year
1						
2						
3						
4						
5	TOTAL RELATED PARTY DEBT TRANSACTIONS					

- ▶ All related party debt must be included on Schedule 5B.

Schedule 8: Choice Capital Asset Related Debt Transactions

Year Ending June 30, 2014

? ◀ Schedule information

Only include debt paid out of school money in this schedule.

Line	Lender(s) Name	Date Incurred	Percentage Relating to School Program		Principal Outstanding at Beginning of Year	Principal Incurred During Year (a)	Total Principal Paid During Year	Principal Outstanding at End of Year	Principal Paid Relating to School Program	Total Interest Paid During Year	Interest Amt Relating to School Program
			12-13	13-14							
MORTGAGES, BANK LOANS OR PROMISSORY NOTES											
1											
2											
3											
10	TOTAL MORTGAGES, BANK LOANS OR PROMISSORY NOTES										
DEBT FOR ASSETS IN THE BUILDING USAGE CHARGE											
11			0%	0%							
12			0%	0%							
13			0%	0%							
14	TOTAL DEBT FOR ASSETS IN THE BUILDING USAGE CHARGE										
CAPITAL LEASES											
15											
16											
17											
18	TOTAL CAPITAL LEASES										
TOTALS											
19	TOTAL CAPITAL ASSET RELATED DEBT										
20	TOTAL CHOICE DEBT										

☐ Yes ☐ No Have all ineligible related party or less-than-arms length transactions been excluded from the above schedule?

Capital Asset Debt

- ▶ Fixed asset expenditures include the amount that is debt financed.
- ▶ When principal incurred is added to Schedule 8, it flows to the top of Schedule 9.
- ▶ When the debt is used to actually fund fixed assets or operating expenses, it should be reflected on Schedule 9 where the debt was used.

Line	Choice Eligible Capital Asset Debt	Amount
1	Unexpended Prior Year Carryover Balance (b)	
2	Long-Term Debt Incurred-Current Period	
3	Available Capital Asset Debt Financing	
	LESS: CURRENT USES OF CAPITAL ASSET DEBT FINANCING	
4	Operating Expenses	
5	Educational Media	
6	Equipment	
7	Buildings and Premises	
8	Leasehold Improvements	
9	Total Current Uses of Capital Asset Debt Financing	
10	CARRYOVER UNEXPENDED DEBT PROCEEDS	

Flows from
Schedule 8

If used for
operating
expenses
instead, should
be included here

When used, it
should be
included in the
respective
category

Capital Asset Debt

- ▶ In order to determine if capital asset debt must be allocated, evaluate the following:
 - Remaining capital asset unallocated balance on Schedule 9 vs cash balance.
 - Capital asset additions in the current year.
- ▶ If the determination is made that the debt has been used, auditor should allocate the debt to:
 - the appropriate capital asset category or
 - operating expense if used for current year general operations.
- ▶ If used for operating expenses, directly decreases eligible cost in that year.
 - If the debt was incurred in the current year, it should be included as operating cash flow debt and moved to the bottom of Schedule 9.

		OPERATING (CASH FLOW) DEBT								
	Choice Eligible Operating (Cash Flow) Debt Lender(s) Name	Date Incurred	Interest Rate	Choice %	Principal Balance at Beginning of Year	Principal Incurred During Year (a)	Principal Paid During Year	Principal Balance at End of Year	Interest Accrued During Year	Interest Amount Relating to School Program
11										
12										
13										
14										
15	TOTAL OPERATING (CASH FLOW) DEBT									

(a) If operating debt is refinanced or renewed during the year report as payoff and new debt incurred.

(b) Amount must equal the prior year Line 10. Approval for balances different than the prior year must be approved in advance by a Choice School Finance Auditor.

Schedule 5A-2: Eligible School Program Expenditures
Year Ending June 30, 2013

Line	Item	Total Cost	Eligible Program Cost
INTEREST COST			
35	Related Party Interest Paid		
36	Operating (Cash Flow) Debt Interest Expense		
37	Capital Asset Debt Interest Payment		
38	TOTAL INTEREST COST		
DEBT PRINCIPAL REPAYMENT			
44	Capital Asset Debt Principal Payment		
45	Operating (Cash Flow) Debt Principal Payment		
46	Related Party Debt Principal Repayment		
47	TOTAL DEBT PRINCIPAL REPAYMENT		

- ▶ The information above flows from Schedule 8 and 9.
- ▶ The costs included in eligible cost are the interest expense for operating debt and capital asset debt and the capital asset debt principal payment.

Recommended Debt Audit Procedures

- ▶ Determine if the debt is from a related party.
 - Any debt that is not from a bank should be evaluated.
 - If from a Board member or endowment fund, ensure the interest rate doesn't exceed the prime rate.
- ▶ Send out a confirmation of the ending debt balance, principal payments made, and any interest paid to the lender.

Recommended Debt Audit Procedures (cont)

- ▶ Review any debt covenants and ensure that the school is in compliance with them or has obtained a waiver from the bank.
 - Any waiver should be received directly from the bank, in writing, and signed.
- ▶ Obtain a copy of the agreement and maintain it in the permanent file.
 - Ensure that updates of any debt agreements are obtained on an annual basis.

Complete Debt Example

Common Findings

- ▶ The allocation percentage used wasn't properly calculated or isn't one of the allowed options.
- ▶ The determination of if the debt was capital or operating debt was not properly made.
- ▶ The debt was from a Board member and the interest rate exceeded the prime rate.
- ▶ The debt is not properly identified as related party debt.

Complete Debt Example

Eligible Program Costs

Schedule 5A-1: Eligible School Program Expenditures

Schedule 5A-2: Eligible School Program Expenditures

Schedule 5B: Choice Non-Eligible Transactions



Schedule 5A-1: Eligible School Program Expenditures
Year Ending June 30, 2014

? ◀ Schedule information			
		SALARIES	
Line	Item	Total Cost	Eligible Program Cost
1	Salaries - K-12 Programs		
2	Salaries - Food Services		
3	Salaries - Pupil Transportation		
4	Salaries - Other		
5	TOTAL SALARIES		
		BENEFITS	
6	Benefits - K-12 Programs		
7	Benefits - Food Services		
8	Benefits - Pupil Transportation		
9	Benefits - Other		
10	TOTAL BENEFITS		
		PROFESSIONAL SERVICES	
11	Professional Services - K-12 Programs		
12	Professional Services - Food Services		
13	Professional Services - Pupil Transportation		
14	Professional Services - Accounting Costs <i>Enter accountant(s) name(s) below. This should not be the auditor.</i>		
15	Professional Services - Other		
16	TOTAL PROFESSIONAL SERVICES		
		PROPERTY SERVICES	
17	Property Services - K-12 Programs		
18	Facility Rent <i>Enter property owner name below.</i>		
19	BUC Costs		
20	Property Services - Food Services		
21	Property Services - Pupil Transportation		
22	Property Services - Other		
23	TOTAL PROPERTY SERVICES		
		SUPPLIES	
24	Supplies - K-12 Programs		
25	Supplies - Food Services		
26	Supplies - Pupil Transportation		
27	Supplies - Other		
28	TOTAL SUPPLIES		

Schedule 5A-2: Eligible School Program Expenditures

Year Ending June 30, 2013

		OTHER GOODS AND SERVICES		
Line	Item	Total Cost	Eligible Program Cost	
29	Other Goods and Services - K-12 Programs			
30	Other Goods and Services - Food Services			
31	Other Goods and Services - Pupil Transportation			
32	Other Goods and Services - Other			
33	TOTAL OTHER GOODS AND SERVICES			
		OPERATING EXPENSE		
34	TOTAL OPERATING EXPENSE			

- ▶ Include the total amount of the cost in the respective category.
- ▶ Generally, the auditor/school has discretion on where to include items as long as it makes sense.
- ▶ Food service related costs must be included in a food service line since this total is used elsewhere.
- ▶ The portion related to educational programming costs should be included in Eligible Program Cost.
- ▶ Bad debt expenses are not an eligible cost.

Rental Requirements

- ▶ There is evidence of ownership.
- ▶ There is a written rental agreement.
- ▶ There is physical evidence of payment (ie: cancelled checks).
- ▶ The rent charged by any related party is reasonable.

Rental Requirements (cont)

- ▶ The school is a separate legal entity from the landlord. This means that:
 - The school and the landlord are separately set up with the Department of Financial Institutions (DFI), if either is currently set up with the DFI.
 - The school and the landlord have separate tax id numbers. The school uses the separate tax id number for all activities including, but not limited to, payroll.

Rental Requirements (cont)

- ▶ All rents must be paid by September 1 immediately following the end of the fiscal year in which the rental cost was incurred. If the rental payments are not due by September 1st per the written rental agreement the rent may still be included in the Financial Information Report (FIR) as an eligible cost. However, the FIR related party footnote must disclose how much rent is still owed as of September 1st related to the previous fiscal year and when the rent is due. A copy of the rental agreement must also be submitted with the FIR.
- ▶ The firm engaged to audit a school's FIR shall assure the above conditions are met.

Eligible Costs Testing Procedures

- ▶ Ensure an appropriate amount of detail testing—any transactions above 20% required
- ▶ Obtain invoices for support and ensure amounts were actually paid or properly set up as a payable
- ▶ Verify eligible educational program costs
- ▶ If renting—obtain a copy of the rental/lease agreement for the workpapers and compare to actual payments

Allocation Testing

- ▶ Ensure an allowed allocation basis was used.
- ▶ Ensure the allocation was correctly calculated with appropriate inputs in the current year.

Payroll Withholding Audit Procedures

- ▶ Reconciliation of payroll withholdings to remittances to authorized agencies or taxing authorities (required by PI 35.046 (3)(e))
- ▶ Review individuals paid and determine if they are includable in net educational programming cost

Start Up Costs

- ▶ Guidance: A school in its first year of operation can include start up costs incurred before the start of the fiscal year per [Wis. Admin. Code Ch. PI 35.045 \(5\)](#) subject to the requirements of eligible expenses per [Wisc. Admin Code PI 35.02 \(12m\)](#).
- ▶ Must have been expended before July 1, 2013.
- ▶ School must provide a detail listing of the associated start up costs including back up invoices and support.

Start Up Cost (cont)

- ▶ Ensure any start up costs relate to the cost to begin participating in the program the first year the school is in the Choice program.
- ▶ If the school used the items purchased to operate in a previous school year, they are not considered start up costs for the Choice program.
- ▶ Capital assets may not be included in start up costs. They must be included as legacy items and comply with the legacy items requirements.

Non Eligible Expenses

- ▶ Contributed services (PI 35.045 (3)(b))
- ▶ Fund raising (PI 35.045 (3)(b))
- ▶ Scholarship awards and financial support for pupils (PI 35.045 (3)(b))
- ▶ Debt principal and interest payments to related parties (PI 35.045 (3)(b))
- ▶ Owner's compensation paid after June 30th (PI 35.045 (2)(d))
- ▶ Penalties, fines, fees & interest charges for not complying with any law or regulation (PI 35.02 (12m))

Other Items to Watch For

- ▶ If the school has any fundraising contributions–did they incur costs for the fundraising?
- ▶ Contributed services–if you see the revenue recorded, should ensure the contributed service cost is included in Schedule 5B.

Ineligible Costs? Why is it important to include in Schedule 5B?

- ▶ Flags ineligible cost existence for future years
- ▶ Allows DPI to clearly see where ineligible costs are
- ▶ Related Party Debt
 - Although there may not currently be interest, there may be in the future
 - Important to identify so the school can plan appropriately
- ▶ Interest and penalties to governmental agencies should align with the balances in Schedule 12

Schedule 5B: Choice Non-eligible Transactions

Year Ending June 30, 2013

FINES, FEES, PENALTIES FOR NON-COMPLIANCE		
6	Internal Revenue Service	
7	Wisconsin Department of Revenue	
8	Wisconsin Department of Workforce Development	
9	Other Fines, Fees, Penalties for Non-compliance	
10	TOTAL FINES, FEES, PENALTIES FOR NON-COMPLIANCE	
OTHER NON-ELIGIBLE COSTS		
11	Fund Raising	
12	Scholarships, Student Financial Support	
13	Contributed Services	
14	Owners Compensation Not Paid by June 30, 2013	
15	TOTAL OTHER NON-ELIGIBLE COSTS	

Schedule 5A-2: Eligible School Program Expenditures

Year Ending June 30, 2013

Line	Item	Total Cost	Eligible Program Cost
EXPENDITURES AND ELIGIBLE PROGRAM COST			
48	Fines, Fees, Penalties For Non-compliance		
49	Other Non-eligible Costs		
50	Start-Up Cost Schools New to Program Only		
51	Current Year FIR Adjustment Refund Paid State		
52	TOTAL EXPENDITURES AND ELIGIBLE PROGRAM COST		

Fund Raising Costs

16	Since the school has no fund raising and/or external contributions revenue, this question does not need to be answered.	
16	Fund raising and/or external contributions revenue is included on Sch 4. Fund raising cost must be included on Line 12 below. Did the school have any fund raising cost?	

- ▶ If the school has any fund raising cost, it must be included in Schedule 5B, Line 11.
- ▶ In order to ensure this is being properly completed, a new question is included in Schedule 5B. If there is any fund raising revenue, you must answer if there is any fund raising cost.
- ▶ If there is fund raising/external contribution revenue and this question is not answered, an error will show on the error report.

Common Findings

- ▶ Fundraising cost not properly included in Schedule 5B.
- ▶ Allocation percentages used are not allowed by PI 35.
- ▶ Rent included but no lease agreement.
- ▶ Amounts forgiven or incorrectly included in the prior year FIR but the footnote disclosure regarding prior year eligible costs being changed is not included.

Review

- ▶ The school administrator contributes some of their salary due to budget shortfalls. They pay \$3,000 to the school. They also tell the school they do not have to pay \$2,000 of their normal salary payment to them. The \$2,000 is recorded as a normal salary payment. Which of the following is correct?
 - a. The \$5,000 should be recorded as contributed Services cost on Schedule 5B.
 - b. The \$2,000 should be recorded as contributed Services cost on Schedule 5B.
 - c. None of the amounts should be included as contributed services.

Review

- ▶ The school has an annual fundraising dinner. The administrative staff sends out materials requesting funds during the normal school hours. Which of the following must be included as fundraising cost? (may be multiple)
 - a. Administrative staff time for sending the materials.
 - b. A building allocation for the administrative staff time spent on fundraising.
 - c. Cost for the dinner.
 - d. Cost for the mailings.

Review

	Amount Paid	Schedule 5A Total Cost	Schedule 5A Choice Eligible Cost
Day care costs	\$20,000		
Costs for classrooms with Choice students	\$100,000		
Costs for classrooms without Choice students	\$3,000		
Umbrella insurance that covers the school and the church	\$4,600		
Parish secretary who works 20% of her time on the school	\$10,000		

Fixed Assets

Schedule 6-1: Capital Outlay Allocation

Schedule 6-2 : Capital Outlay Allocation

Schedule 7-1: Deferred Capital Outlay Charge Balances

Schedule 7-2: Deferred Capital Outlay Charge Balances

Schedule 7-3: Deferred Capital Outlay Charge Balances

Schedule 5C: BUC (Building Usage Charge)



Fixed Assets General Requirements

- ▶ Fixed assets are included when acquired, not when placed in service.
- ▶ Capital outlay items previously included in cost computations may not again be included as a cost by successor ownership of the school, nor upon purchase by or transfer to other private schools participating in the choice program [PI 35.045(4)(b)]

Capitalization Policy

- ▶ All schools must establish a capitalization policy that includes:
 - that assets which are expected to serve their principal purposes for more than a year may be capitalized;
 - the dollar value threshold that will be used to determine what assets will be capitalized;
 - if any assets will be grouped for capitalization purposes, how the assets will be grouped; and
 - the process the school will complete on an annual basis to determine if any assets are no longer in use.

Capitalization Policy

- ▶ The policy must be disclosed in the FIR footnotes.
- ▶ Legacy items must comply with the capitalization policy.
 - If any capital assets do not comply with the capitalization policy they may not be included as legacy items.
 - If any capital assets were previously included that do not comply, they should be considered “disposed of” in the 2013–14 FIR and removed from Schedule 7. The disposal footnote disclosure must be included.

Media

CONSUMABLE INSTRUCTIONAL AND ADMINISTRATIVE ITEMS EXPECTED TO SERVE THEIR PRINCIPAL PURPOSES FOR MORE THAN ONE YEAR

- **Amortize 20% annually over 5 years or expense in the first year.**
- **INCLUDES –
TEXT & REFERENCE BOOKS, AUDIO–VISUAL
MATERIALS, COMPUTER SOFTWARE**

PI 35.045 (4)(a)1 a

Equipment

- ▶ **Amortize 20% annually over 5 years or expense in the first year.**
- ▶ **INCLUDES –**
Desks, furniture, chairs, freestanding lockers, vehicles, computers & copiers
- ▶ **NET OF TRADE-IN ALLOWANCE**
- ▶ **PI 35.045 (4)(a)1 b**

Schedule 6-1: Capital Outlay Allocation
Year Ending June 30, 2014

◀ Schedule information: Read for restriction on "Legacy Items."

				EDUCATIONAL MEDIA EXPENDITURE ALLOCATION								
Line	Item	A Legacy Items FMV / Original Amount	B Total Current Expenditure		C Less Portion Debt Financed	D Non-debt Financed Expenditure (A &/or B) - C	E Percentage Relating to School Program	F School Program Expenditure Amount D x E	G Cost Option Elected <i>Total Program Expenditure (100%) or Amortization (20%)</i>	H Choice Capital Outlay Charge	I Choice Deferred Capital Cost	
1	Legacy Items <i>Use this line first year only. (A)</i>											
2	Current											
3	Prior Year Carryover											
4	TOTALS											

[illegible]

Schedule 7-1: Deferred Capital Outlay Charge Balances
Year Ending June 30, 2014

? ◀ Schedule information

			EDUCATIONAL MEDIA			
Line	Year Ending June 30	A Original Amount of Non-debt Funded Capital Outlay Expenditure	B Prior Year Capital Outlay Charges	C Deferred Capital Cost Beginning of Year	D Current Year Capital Outlay Charge	E Deferred Capital Cost End of Year
	2014 Items					
1	2013					
2	2012					
3	2011					
4	2010					
5	Legacy Items					
6	PRIOR YEAR TOTALS					
7	TOTALS					
			EQUIPMENT			
Line	Year Ending June 30	A Original Amount of Non-debt Funded Capital Outlay Expenditure	B Prior Year Capital Outlay Charges	C Deferred Capital Cost Beginning of Year	D Current Year Capital Outlay Charge	E Deferred Capital Cost End of Year
	2014 Items					
8	2013					
9	2012					
10	2011					
11	2010					
12	Legacy Items					
13	PRIOR YEAR TOTALS					
14	TOTALS					

This schedule requires data entries matching the previous FIR for the year indicated unless the footnotes include information on disposal(s). No amounts may be added to any year except

Sale of Assets

- ▶ The sale of equipment must be disclosed in the footnotes and the amount of equipment on Schedule 7 reduced by the total equipment cost and amortization to date.
- ▶ Any gain should be reflected on Schedule 4, Line 21 in the “Financing Sources” column but not in the “Offsetting Revenue” column.
- ▶ Any loss should be reflected in Schedule 5A–2, Line 32 in the “Total Cost” column but not in the “Eligible Program Cost” column.

Building & Premises Costs

Owner of Building/Site	How Costs are Recovered	FIR Schedule
School or the same legal entity as the school (not separately set up with the Department of Financial Institutions and/or have the same tax id number)	<p>Debt financed: Debt principal payments and interest paid during year are included in eligible cost.</p> <p>Non-Debt financed:</p> <ul style="list-style-type: none"> • 1st year-included in legacy item at FMV. • Subsequent years-included as a building and site cost in the year acquired. • Option to expense fully in year acquired or amortize over certain period. 	<p>Debt Financed: Schedule 8</p> <p>Non-Debt Financed: Schedule 6 & 7</p>
Related party who is a separate legal entity or a 3 rd party	Rent may be charged. Rent paid to a related party should be reviewed for reasonableness.	Schedule 5-1
Parent organization of the school or another related party	Building Usage Charge (BUC) election allows for the school to recover 10.5% of the fair market value.	Schedule 5C

Buildings & Premises

- Amortize 6.25% annually over 16 years or expense in the first year.
- If building replaced–Basis of the new building is reduced by the cost amount previously included in the cost calculation.
- Buildings mean the building and building components such as lighting fixtures, built-in lockers, heating, ventilating and wiring systems.
- Premises mean land, sidewalks, installed playground equipment, parking lot and landscaping.

PI 35.045 (4)(a)1c

Schedule 7-2: Deferred Capital Outlay Charge Balances

Year Ending June 30, 2013

BUILDING AND SITES

Line	Year Ending June 30	A	B	C	D	E	F	G	H	I	J
		Original Amount of Non-debt Funded Capital Outlay Expenditure	Prior Year Capital Outlay Eligible Charges	PY % Relating to School Program	Deferred Capital Cost Beginning of Year	Current Year Eligible Capital Outlay	Deferred Capital Cost End of Year	CY % Relating to School Program	Current Year Choice Capital Outlay Charge	Choice Deferred Capital Cost Beginning of Year	Choice Deferred Capital Cost End of Year
?	◀ Schedule information										
	2013 Items										
1	2012										
2	2011										
3	2010										
4	2009										
5	2008										
6	2007										
12	2001										
13	2000										
14	1999										
15	1998										
16	Legacy Items										
17	PRIOR YEAR										
18	TOTALS										

This schedule requires data entries matching the previous FIR for the year indicated unless the footnotes include information on disposal(s). No amounts may be added to any year except the current year.

Building & Premises

KEY AUDIT RISKS

- ▶ That all costs are not included in the schedules in the year acquired, not when placed in service.
- ▶ The school will overstate the amount of buildings and premises.
- ▶ Inclusion of costs that were previously recovered and therefore are not eligible.

HOW AUDIT RISKS ADDRESSED

- ▶ Complete testing on expenditures/other capital assets to ensure all assets are properly included.
- ▶ Perform testing on the amount of capital asset additions, including tracing them back to cash disbursements, to ensure they are eligible and included at the correct amount.
- ▶ Perform specific inquiries/testing for buildings and premises purchased including obtain the sale agreement to ensure the seller was not a Choice school.

Leasehold Improvements

- ▶ The school may include the full cost in the first year or amortize the cost over the remaining lease period.
- ▶ Improvements to a leased facility that will stay with the facility even if the school no longer leases the facility.
- ▶ Ensure the improvements are depreciated over the term of the related lease, if not included fully as eligible cost in the first year.
- ▶ If the lease is renewable, it must be depreciated over the **current** lease term.
- ▶ Ensure either the capital or operating lease footnote is included for all rented locations.

PI 35.045 (4)(a)1 d

Leasehold Improvements

- ▶ The school may include the full cost in the first year or amortize the cost over the remaining lease period.
- ▶ If the lease is renewable, it must be depreciated over the **current** lease term.
- ▶ Ensure either the capital or operating lease footnote is included for all rented locations.

PI 35.045 (4)(a)1 d

Schedule 7-3: Deferred Capital Outlay Charge Balances Year Ending June 30, 2013										
LEASEHOLD IMPROVEMENTS										
Line	Year Ending June 30	C Prior Year Capital Outlay Eligible Charges	D PY % Relating to School Program	E Deferred Capital Cost Beginning of Year	F Current Year Eligible Capital Outlay	G Deferred Capital Cost End of Year	H CY % Relating to School Program	I Current Year Choice Capital Outlay Charge	J Choice Deferred Capital Cost Beginning of Year	K Choice Deferred Capital Cost End of Year
	2013 Items									
1	2012									
2	2011									
3	2010									
4	2009									
5	2008									
12	2001									
13	2000									
14	Prior Year Items									
15	Legacy Items									
16	PRIOR YEAR TOTALS									
17	TOTALS									

This schedule requires previous FIR for the year indicated unless the footnotes include information on disposal(s). No amounts may be added to any year except the current year.

"PRIOR YEAR ITEMS" for items brought into Choice use prior to 1999 that still have an unamortized balance.

Leasehold Improvements

KEY AUDIT RISKS

- ▶ The leasehold improvements are included over the correct period.
- ▶ The school will overstate the amount of buildings and premises.
- ▶ Expenditures not associated with a lease are incorrectly included in the schedule.

HOW AUDIT RISKS ARE ADDRESSED

- ▶ Obtain the lease agreement (maintain in permanent file) and tie the lease period to the agreement.
- ▶ Perform testing on the amount of capital asset additions, including tracing them back to cash disbursements, to ensure they are eligible and included at the correct amount.

Schedule 6-2: Capital Outlay Allocation

Year Ending June 30, 2014

? ◀ Schedule information: Read for restriction on "Legacy Items."

BUILDINGS AND PREMISES EXPENDITURE ALLOCATION											
Line	Item	A Legacy Items FMV / Original Amount	B Total Current Expenditure	C Less Capital Outlay Charges of Replaced Items	D Less Portion Debt Financed	E Non-debt Financed Expenditure (A &/or B) - C - D	F Percentage Relating to School Program	G School Program Expenditure Amount E x F	H Cost Option Elected Total Program Expenditure (100%) or Amortization (6.25%)	I Choice Capital Outlay Charge	J Choice Deferred Capital Cost
9	Legacy Items Use this line first year only. (A)										
10	Current Items										
11	Prior Year Carryover Balance										
12	TOTAL										
LEASEHOLD IMPROVEMENTS EXPENDITURE ALLOCATION											
Line	Item	A Legacy Items FMV / Original Amount	B Total Current Expenditure	C Less Capital Outlay Charges of Replaced Items	D Less Portion Debt Financed	E Non-debt Financed Expenditure (A &/or B) - D	F Percentage Relating to School Program	G School Program Expenditure Amount E x F	H Cost Option Elected Total Program Expenditure (100%) or Amortization over Lease Period	I Choice Capital Outlay Charge	J Choice Deferred Capital Cost
13	Legacy Items Use this line first year only. (A)										
14	Current Items										
15	Prior Year Carryover Balance										
16	TOTALS										
TOTALS											
17											

Schedule 5A-2: Eligible School Program Expenditures

Year Ending June 30, 2013

Line	Item	Total Cost	Eligible Program Cost
39	Educational Media		
40	Equipment		
41	Buildings and Sites		
42	Leasehold Improvements		
43	TOTAL CAPITAL OUTLAY		

- ▶ Total Cost equals the current year expenditures included in Schedule 6-1 and 6-2.
- ▶ Eligible program cost is calculated as 100% of the costs (if elected in the first year) or an amortization from the current or previous years.
 - “Choice Capital Outlay Charge” in Schedule 6-1 and 6-2.

Building Usage Charge (BUC)

- ▶ Allows for a school to include 10.5 percent of the fair market value of the school's building and its premise.
- ▶ The BUC election is made for each school building (different buildings may be treated differently).

Requirements:

- ▶ Legal title to the private school's buildings and premises must be held in the name of the private school's parent organization or other related party.
- ▶ The school must submit a request to the department to use the building usage charge that includes:
 - the name of the owner of the building,
 - the relationship between the owner and the school, and
 - how that relationship qualifies as either a parent organization or a related party

Parent Organization

- ▶ A parent organization, for purposes of determining if a school is eligible for the BUC, means an organization that engages in some operations that are independent of the school's operations and has the authority to control and manage the school.
- ▶ This may include situations where a church and the school are the same legal entity.

Fair Market Value

- ▶ If the school was in the choice program when the building was purchased, the fair market value is the purchase price of the building.
- ▶ If the school was not in the choice program when the building was purchased, the FMV is determined by an appraisal from a certified appraiser.
 - If the school has an appraisal from a certified appraiser that was obtained at the time that the building was placed in use as a parental choice program facility, that appraisal may be used to determine the FMV.
 - Otherwise, the school must obtain a current FMV appraisal from a certified appraiser. The appraisal must be completed prior to the due date of the first FIR that the BUC is included.
- ▶ The school may get a current FMV appraisal at any time and update the FMV to the current amount.

Building Usage Charge (BUC)

- ▶ If a school is using the BUC for a building for the first time in the 2013–14 school year, the request to use the BUC and the appraisal from a certified appraiser (if required) is due by September 1, 2014.
- ▶ Requests to use the building usage charge may not be withdrawn.

Inclusion of Buildings & Premises

				BUC COST INFORMATION						
Line	A	B	C	D	E	Current Year Improvements and Repairs				
	Property Street Address	Date of Last Appraisal (A)	Appraised Fair Market Value (FMV)	% Relating to School Program	School Program Use Value <i>C x D</i>	F Capitalizable Costs	G Non-Capitalizable Costs	H % Relating to School Program	I Choice Eligible Non-Capitalizable Costs <i>G x H</i>	J Description of Non-Capitalizable Costs More Than \$1,000 <i>If additional room is needed, please include a disclosure in the notes.</i>
1	1834 Main St	05/15/14	2,000,000	100.00%	2,000,000	150,000	12,500	100.00%		
11	583 N Palmer St	03/15/14	1,780,000	34.00%	605,200					
12	Total		3,780,000		2,605,200					
13	BUC at 10.5% of BUC Property Basis				273,546					
				BUC GENERAL INFORMATION						
	K Property Street Address	L City	M Name of Property Owner	N Name of Certified Appraisal Provider		O Identify how the property owner is related to the school		P Location Use <i>Describe how the location is used for school related activities</i>		
16	1834 Main St	Middleton	James Court	Certified Appraisals		Parent organization of the school		K-8 classrooms		
26	583 N Palmer St	Madison	Walter T. New	James R. Howard		Choice administrator of the school		Office space for school staff		

- ▶ Each location in the BUC must be listed separately.
- ▶ BUC general information for each location is included on the lower lines.
- ▶ Department staff will review Column O to ensure the BUC is allowed.
- ▶ Department staff will also review Column P for an understanding of what the building is being used for.

Building Usage Charge (BUC)

- ▶ Once a school elects to use the BUC for a building, the capitalizable costs of that building and its premises may not be included as an eligible cost through an alternative method. This includes:
 - If the costs of the building and premises have been included over 16 years in Schedule 6 and 7 of the FIR, the costs must be removed from these schedules.
 - If any rent is being paid by the school, the rent may not be included as an eligible cost once the BUC is elected. Additionally, if any leasehold improvements are included in Schedule 6 and 7 of the FIR, the costs must be removed from these schedules.
 - If any debt was used to fund the original purchase or subsequent improvements to the building in the BUC, the principal and interest payments are not eligible costs.
 - Any additions or capitalizable repair costs are not eligible costs.

Debt Financed BUC Expenditures

Lender(s) Name	Date Incurred	Percentage Relating to School Program		Principal Outstanding at Beginning of Year	Principal Incurred During Year (a)	Total Principal Paid During Year	Principal Outstanding at End of Year	Principal Paid Relating to School Program	Total Interest Paid During Year	Interest Amt Relating to School Program
		12-13	13-14							
		DEBT FOR ASSETS IN THE BUILDING USAGE CHARGE								
		0%	0%							
		0%	0%							
		0%	0%							
TOTAL DEBT FOR ASSETS IN THE BUILDING USAGE CHARGE										

- ▶ If the BUC related expenditures were financed by debt, the debt must be included on Schedule 8 in the BUC section.
- ▶ The principal and interest payments are not included as eligible cost.

Building Previously Amortized over 16 years

Pre BUC Election:

- ▶ The parent organization of the school owns the building.
- ▶ A school first participated in the Choice program in the 2009–10 school year. The school obtained a FMV appraisal in the 2009–10 school year that valued the building and premises at \$3 million. The school elected to recover the \$3 million over 16 years (6.25% per year).
- ▶ The school repaired the roof, which cost \$5,000. The school elected to recover the \$5,000 over 16 years (6.25% per year).
- ▶ The school put on an addition, which cost \$200,000. The school elected to recover the \$200,000 over 16 years (6.25% per year).

The school elects the BUC:

- ▶ All costs for the building and premises must be removed from the buildings and premises schedule.
- ▶ FMV in the BUC may be based on:
 - The original FMV determined in the 2009–10 school year of \$3 million.
 - The school may obtain a new FMV appraisal that would include any changes to the FMV as a result of the new roof and the \$200,000 addition.

Previously Rented Location

The location is rented from a related party.

2012-13 FIR:

- ▶ Rent was included in total cost and as an eligible cost in Sch 5A-1.
- ▶ The school had leasehold improvements of \$50,000 that were being amortized over 10 years in Schedule 7-3.

Line	Item	Total Cost	Eligible Program Cost
18	Facility Rent <i>Enter property owner name below.</i> Landlord Name	515,000	515,000

2013-14 FIR:

- ▶ The school elects to use the BUC. 10.5% of the FMV is included as an eligible cost in Sch 5A-1.
- ▶ The rent is only included in total cost in Sch 5A-1. It is not an eligible cost.
- ▶ The leasehold improvements in Schedule 7-3 must be removed.

Line	Item	Total Cost	Eligible Program Cost
18	Facility Rent <i>Enter property owner name below.</i> Landlord Name	515,000	
19	BUC Costs		550,069

Grandfathered Schools

- ▶ For schools that elected to use the BUC in the 1998–99 school year:
 - Wis. Stat. 119.23 (4)(d)3. allows for the schools to continue to use the BUC.
 - The FMV that may be used for the 2013–14 FIR and thereafter is the FMV from the 2012–13 FIR plus the cost for any additions included in the BUC from 1998–99 to 2012–13.
 - The school may not add the cost of any additions after 2012–13 to the BUC.
 - As with all schools, a grandfathered school may choose to get a new FMV appraisal at any time. If a new appraisal is obtained, the school may not include the historical cost for additions in the BUC.

Grandfathered Schools FMV

- ▶ 2013–14 Col C should be the 2012–13 Col B plus Col C.
- ▶ 2013–14 Col D should be based on a weighted average if the FMV and additions do not have the same school use percentage.

Year Ending June 30	A Date of Last Appraisal (a)	B Appraised FMV	C Additions at Actual Cost (a)	D % Relating to School Program	E School Program Use Value
	03/05/00	5,000,000		100.00%	5,000,000
2013			25,000	85.00%	21,250
2012			15,000	100.00%	15,000
2011			10,000	25.00%	2,500
2010					
2009					
2008					
2007			170,000	100.00%	170,000
2006					
2005					
2004					
Prior Year Items			30,000	100.00%	30,000
Total School Program Use Value					5,238,750

Line	A Property Street Address	B Date of Last Appraisal (A)	C Appraised Fair Market Value (FMV)	D % Relating to School Program	E School Program Use Value $C \times D$
1	125 S Webster St	03/05/00	5,250,000	99.79%	5,238,975

Current Year Improvements & Repairs

Current Year Improvements and Repairs				
F Capitalizable Costs	G Non-Capitalizable Costs	H % Relating to School Program	I Choice Eligible Non-Capitalizable Costs $G \times H$	J Description of Non-Capitalizable Costs More Than \$1,000 <i>If additional room is needed, please include a disclosure in the notes.</i>
150,000	12,500	100.00%	12,500	Roof replacement
-	6,800	100.00%	6,800	Painting
13,500	3,500	83.00%	2,905	None more than \$1,000

- ▶ All current year improvements and repairs for BUC buildings and premises must be included on Schedule 5C.
- ▶ The costs must have been incurred and paid for (or will be paid) by the school or the same legal entity as the school to be included.
- ▶ Identify those items that are capitalizable costs versus those that are non-capitalizable costs in Columns F and G.
- ▶ The school portion of those that are non-capitalizable will be included in eligible costs (Column I).
- ▶ Include a description of any that are non-capitalizable that are above \$1,000 in Column J.

Current Year Improvements & Repairs

- ▶ In the example above:
 - Roof replacement does not seem like an appropriate non-capitalizable cost.
 - Painting appears to be a reasonable non-capitalizable cost.
 - If there are no non-capitalizable costs above \$1,000, please note this similar to the example above.

Current Year Improvements and Repairs				
F Capitalizable Costs	G Non-Capitalizable Costs	H % Relating to School Program	I Choice Eligible Non-Capitalizable Costs $G \times H$	J Description of Non-Capitalizable Costs More Than \$1,000 <i>If additional room is needed, please include a disclosure in the notes.</i>
150,000	12,500	100.00%	12,500	Roof replacement
-	6,800	100.00%	6,800	Painting
13,500	3,500	83.00%	2,905	None more than \$1,000

Current Year Improvements & Repairs

Line	Property Street Address	F Capitalizable Costs	G Non- Capitalizable Costs	H % Relating to School Program	I Choice Eligible Non-Capitalizable Costs $G \times H$	J Description of Non-Capitalizable Costs More Than \$1,000 <i>If additional room is needed, please include a disclosure in the notes.</i>
1	1834 Main St	150,000	12,500	100.00%	12,500	Roof replacement
2		-	6,800	100.00%	6,800	Painting
3		13,500	3,500	83.00%	2,905	None more than \$1,000
12	Total	163,500	22,800		22,205	

Total = 186,300

Line	Item	Total Cost	Eligible Program Cost
19	BUC Costs	186,300	22,205

- ▶ The total of Column F and G will automatically be included in the Total Cost Column in Schedule 5A-1.
- ▶ The total of Column I will automatically be included in the Eligible Program Cost Column in Schedule 5A-1. This Column will also include the current year BUC amount.

Building Usage Charge (BUC)

- ▶ The value/costs related to the BUC should not be included elsewhere in the FIR.
- ▶ The building and premises should not be included in Schedule 3B.

First Year School Considerations

- ▶ Capital assets a school owns when first entering the program are known as “legacy assets.”
- ▶ Must be included at their fair market value based on an appraisal from a certified appraiser.
- ▶ Existing items can ONLY be included in the first year.

PI 35.045(4)(a)2

Appraisal Uses

- ▶ For legacy items–items a school owns when they first enter the Choice program.
- ▶ For buildings and premises in the Building Usage Charge (BUC).

Appraisal Provider–Buildings, Premises & Leasehold Improvements

- ▶ Must be completed by a certified appraiser.
- ▶ Certified appraisers are listed with the Department of Safety & Professional Services as a General Certified Appraiser, Residential Certified Appraiser, or Licensed Appraiser.
- ▶ This can be determined at <http://online.drl.wi.gov/LicenseLookup/IndividualCredentialSearch.aspx>.

Appraisal Provider–Equipment & Educational Media

- ▶ The appraiser must have sufficient qualifications showing they have the educational and professional credentials to complete the FMV appraisal.
- ▶ The auditor must assess the qualifications as part of the FIR.

Appraiser's Report

Must include:

- ▶ sufficient detail to determine the FMV of the assets that will be included in the FIR;
- ▶ the firm and individual who completed the appraisal;
- ▶ the date the appraisal was completed; and
- ▶ the method used to determine the FMV and support for the FMV determination, including that the methods used are appropriate for the assets.

Appraisal Report—Buildings, Premises & Leasehold Improvements

- ▶ Should include a value for each building & premises.
- ▶ If a value for each location is not included, the FMV must be allocated using one of the allowed allocation options in PI 35.
- ▶ Ensure the assets are being used for educational programming purposes.

Appraisal Report–Equipment & Educational Media

- ▶ Ensure the school has sufficient detail for any assets that are grouped on the report showing what is included in the grouping.
- ▶ Ensure the items capitalized are consistent with the school's capitalization policy. If they are not, they may not be included as legacy items.
- ▶ Ensure the assets are being used for educational programming purposes and use an allocation basis if not fully used by the school.

Appraisal Date

- ▶ The appraisal must be completed by September 1st following the year in which the school will use the FMV in the FIR.
- ▶ The appraisal may not be dated any earlier than January 1st preceding the school year the school first participates or re-enters the program unless specifically allowed by the department.
- ▶ Schools that will use the FMV in the 2013–14 FIR must have an appraisal dated between January 1, 2013 and September 1, 2014.

Capital Asset Common Findings

- ▶ Cost included when placed in service, rather than when acquired.
- ▶ Allocation percentage used is not one of the allowed methods and is not based on actual information.
- ▶ Buildings and Premises & Leasehold Improvements: Rather than including the full cost of the initial purchase or improvement and adjusting it for the school use portion through the school use percentage, the amount included in the FIR is only the school use amount.
 - This should be adjusted through the allocation percentage since this allows for adjustment in future years.

Capital Asset Common Findings

- ▶ Leasehold Improvements
 - Lease amortization is not based on the term of the lease.
 - If the school has a renewable lease, the lease term used is based on it being renewed instead of the current lease term, as required.
 - There is no lease and the costs are inappropriately included as a leasehold improvement.

Revenues

Schedule 4A: Financing Sources



OFFSETTING REVENUES

Offsetting up to the cost included.

- ⇒ Fees charged for books and supplies used in classes and programs
- ⇒ Food service
- ⇒ Governmental assistance (transportation reimbursement, etc)
- ⇒ Rental of school buildings
- ⇒ Interest earnings & other income resulting from investment of debt proceeds

PI 35.045 (1)(g)1

What Else is Offsetting Revenue?

- ▶ **NOTHING**
- ▶ The statute only states that those specific items are offsetting.
- ▶ This includes insurance reimbursements.

Schedule 4: Financing Sources
Year Ending June 30, 2014

<div> <div>?</div> <div>◀ Schedule information</div> </div>			
FINANCING SOURCES			
Line	Item	Financing Sources	Offsetting Revenue
1	Tuition		
2	2012-13 Choice Program Payments Retained (Quarterly Pmts net of Sept Certification)		
3	Operator's Subsidy or Contribution (Excluding Line 12F Amount)		
4	Fund Raising or External Contributions		
5	Contributed Services		
6	Book and Supply Fees (a)		0
7	Testing Fees		
8	Other Program Fees (a)		0
9	Fees - Non-school Related		
10	Rentals - Associated with School Buildings (a)		0
11	Rentals - Associated with Non-school Buildings		

The lines that may be offsetting default to including the full amount as offsetting. If the associated cost was less the revenue, then only the cost amount should be included as offsetting revenue.

Schedule 4: Financing Sources
Year Ending June 30, 2014

? ◀ Schedule information

		FINANCING SOURCES	
Line	Item	Financing Sources	Offsetting Revenue
Lines 12A-D and 12F below completed by schools participating in nutrition assistance programs			
12A	Federal and State School Nutrition Assistance		
12B	Nutrition Assistance Commodity Handling Charges		
12C	School Nutrition Program Charges to Individuals		
12D	Other School Nutrition Program Charges and Revenues		
12E	School Nutrition Assistance Programs - Offsetting Revenue		0
12F	School Nutrition Program Operating Subsidy		
13	Other School Food Service Programs (a)		
14	Non-school Food Service Programs		
15	Other Government Assistance (a)		
16	Investment Income (a) (b) <i>Disclosure Threshold: \$1,000</i>		
17	Total Related Party Debt Receipts		
18	Total Unrelated Party Debt Receipts		
19	Sale or Exchange of Assets		
20	Current Year Choice Adjustment		
21	Other Revenues and Adjustments (a)(b) <i>Disclosure Threshold: \$1,000</i>		
22	Summer School Choice Program Payments		
23	TOTAL FINANCING SOURCES		

(a) If an entry in the Offsetting Revenue column does not equal the corresponding entry in the Financing Sources column, an explanation for the difference must be included in the footnotes. A description of any items over the disclosure threshold (included below) must be included.

(b) Itemize amounts over the disclosure threshold listed above in the footnotes. The required threshold is \$1,000 for schools with eligible cost between \$0-\$999,999, \$2,000 for schools with eligible cost between \$1 million-\$2,999,999 million, \$3,000 for schools with eligible cost between \$3 million-\$4,999,999 million, \$4,000 for schools with eligible cost between \$5 million-\$9,999,999 million, and \$5,000 for schools with eligible cost at or above \$10 million. Eligible cost is the net eligible program costs on Schedule 2, Line 4.

Offsetting Revenue Footnote Disclosures

- ▶ Itemize amounts for lines with a “(b)” in the footnotes if they meet the threshold in “(b).”
- ▶ If the financing sources column does not equal the offsetting Choice revenue column for those with an “(a)”, a breakdown of what is included in financing sources and offsetting Choice revenue must be included in the footnotes.

Food Program Money

- ▶ The amount the school has received (Line 12a) of the FIR is sent to the auditors of record
- ▶ Typically food program money is on a two month delay—so ensure that testing includes any food program revenues received after the date the information was sent
 - Auditors should not rely on inquiry alone
 - Review the Agency payment report received to determine if more claims are outstanding or have historically been outstanding (ie the school always has a payment in June but nothing is included as a June payment in the Agency Payment Report provided)
 - Review subsequent receipts for food payments

Food Program Money (cont)

- ▶ The USDA food program requires that the payments made be used for food related purchases. Therefore, if the school received more than current expenditures, it must rollforward the amount to future years when it is used.

SCHOOL NUTRITION REVENUE	
24	Carryforward School Nutrition Program Balance at Beginning of Year
25	School Nutrition Program Revenue
26	School Nutrition Program Expenditures
27	CARRYFORWARD SCHOOL NUTRITION PROGRAM BALANCE TO NEXT YEAR

Fees

- ▶ A school may charge choice students, regardless of their income, fees to recover the cost of the following items:
 - Personal use items, such as uniforms, gym clothes, and towels.
 - Social and extracurricular activities if not necessary to the private school's curriculum.
 - Musical instruments.
 - Meals consumed by pupils of the private school.
 - High school classes that are not required for graduation and for which no credits toward graduation are given.
 - Transportation.
 - Before-school and after-school child care
- ▶ Bulletin 03-02 available at:
<http://dpi.wi.gov/sms/mpinfbul.html>

Fees Testing

▶ PI 35.046(3)(c)

- The auditor shall determine if fees charged pupils are allowed based on DPI guidance.
- If you determine fees are not allowed, include an attachment to the FIR with an explanation of why you believe the fees are not allowed, and the amount of fees charged that are being questioned.
- Final determination of questioned fees charged will be made by DPI.

Common Findings

- ▶ Insurance proceeds included in offsetting revenue, even though they are not offsetting.
- ▶ Government assistance not properly included in offsetting.
- ▶ Accrual for USDA food program revenue not properly included.
- ▶ Offsetting revenue footnote disclosure not included.

Offsetting Revenue Example 1

A school receives \$40,000 from MPS for providing transportation. The school has \$10,000 of transportation supplies and employee salary costs in the current year. They also have \$25,000 of vehicle amortization in the current year. What amount is offsetting revenue and where should it be included in the FIR?

Line 15: Financing Sources—\$40,000
Offsetting Revenue—\$35,000

Offsetting Revenue–Example 2

The school rents a classroom to Weight Watchers. The contract for the 2012–13 school year indicates that Weight Watchers will pay the school \$1,000 for use of the classroom. The school's FIR includes general facility maintenance and supplies of \$20,000. It also includes building amortization of \$6,000. What amount is offsetting revenue and where should it be included in the FIR?

Line 10: Financing Sources– \$1,000
Offsetting Revenue– \$1,000

Net Program Assets & Cash Flow Schedules

Schedule 3B: Net Program Assets

Schedule 3A: Statement of Cash Flows



Schedule 3B: Net Program Assets
June 30, 2013 and June 30, 2014

?	◀ Schedule information	
	ASSETS	
Line	Item	June 30, 2013 June 30, 2014
Current Assets		
1	Cash	
2	Cash Held by (Due To) Operating Organization <i>same legal entity as school</i>	
3	Investments	
4	Receivables	
5	Pledge Receivables (a)	
6	Prepaid Expenses	
7	Anticipated FIR Adjustment from (to) State	
8	Other Program Assets (a)	
9	TOTAL CURRENT ASSETS	0 0
Fixed Assets		
10	Educational Media - Deferred Capital Cost	
11	Equipment - Deferred Capital Cost	
12	Building and Sites - Deferred Capital Cost	
13	Leasehold Improvements - Deferred Capital Cost	
14	Deferred Capital Debt Principal Payment Cost	
Other (Long Term) Assets		
15	Inventories	
16	Other Program Assets (a)	
17	Related Party Assets	
18	TOTAL ASSETS	

Schedule 3B: Net Program Assets
June 30, 2013 and June 30, 2014

Line	Item	June 30, 2013	June 30, 2014
LIABILITIES			
Current Liabilities			
19	Payroll and Related Benefits		
20	Tax Withholdings and FICA-Medicare		
21	Vendor and Other Accounts Payable		
22	Prepaid Tuition and Other Deferred Revenue		
23	Accrued Interest Expense (Cash Flow Borrowing)		
24	Current Portion Of Non-related Party Debt Agreements		
25	Other Program Liabilities (a)		
26	TOTAL CURRENT LIABILITIES	0	0
Other (Long Term) Assets			
27	Outstanding Capital Asset Debt Balance		
28	Outstanding Operating Expense (Cash Flow) Debt		
29	Non-eligible Related Party Borrowing		
30	Other Program Liabilities (a)		
31	Related Party Liabilities (Excluding Debt and Payroll)		
32	TOTAL LIABILITIES		
NET PROGRAM ASSETS			
33	Restricted Food Service Balance		
34	Other Restricted Assets		
35	Unrestricted Assets-Private School Choice Programs Reserve		
36	Other Unrestricted Assets		
37	TOTAL NET PROGRAM ASSETS		
38	TOTAL LIABILITIES AND NET PROGRAM ASSETS		

(a) Itemize amounts over the disclosure threshold established in Schedule 4 (b) in the footnotes.

CASH & INVESTMENT REQUIRED AUDIT PROCEDURES

- ⇒ Account balance confirmation
- ⇒ Account balance reconciliation—all parts of the reconciliation must be reconciled to the school's accounting records
 - ✓ Beginning balances
 - ✓ Deposits (Receipts)
 - ✓ Disbursements
 - ✓ Ending balances

PI 35.046(3)(d)1

Prepays

- ▶ Ensure schools spending budgets at year end for non capital assets such as supplies for the following year are recording the costs as prepaids rather than as an expenditure.
- ▶ Auditor fee will be a prepaid for all schools each year. This is an amount paid to DPI to participate in the program by February 1st for the subsequent school year.

New Choice School FIR

▶ Beginning Balance Sheet

- Do not include any capital assets the school owned prior to participating in the program unless the school owned them as of July 1, 2013 (for the 2013–14 FIR) and they get a Fair Market Value (FMV) appraisal that complies with the requirements. These capital assets may then be included on Schedule 6 and 7 as “legacy items.”
 - The FMV appraisals used must be provided prior to or with the FIR.
 - No appraisal is required for assets purchased between 1/1/14–6/30/14 for the 13–14 FIR.
- No book depreciation may be included in the Financial Information Report. The only depreciation/amortization allowed is the amount included in Schedules 6 and 7.
- Non choice related assets and liabilities (items that wouldn't normally show up on the Net Asset Schedule) should not be included.

New Choice School Required Testing

- ▶ Auditors for the program are required to comply with the AICPA Statements on Auditing Standards.
- ▶ Opening balances must be tested as required by [AU-C sec. 510](#).
- ▶ Apply procedures to ensure the balances were properly stated.
- ▶ Ensure the opening balances reflect the application of appropriate accounting policies.

New Choice School Required Testing

- ▶ Some example procedures include:
 - cash should be tied out to the bank statement and reconciliation,
 - any investment balances should be tied out to the bank statements,
 - perform subsequent receipt testing for the receivable balance,
 - perform subsequent disbursement testing/cutoff testing for any payable balance, and
 - tie out debt balances to the bank statements.

Schedule 3B: Net Asset Schedule

Common Findings

- ▶ The prior year FIR amount due to/from the school was not updated to the final certified amount.
- ▶ Including assets (especially capital assets) at their book value, even though they are not Choice assets.
- ▶ The debt balances are not properly broken out between long term and current.
- ▶ Prepaid auditor fee is not included.

Operating Organization Funding– Same Legal Entity

Example 1:

- ▶ The church and school are the same legal entity.
- ▶ The school has chosen to only include the school's activity and balances in the FIR.
- ▶ The school has cash of \$10,000.
- ▶ The church has cash of \$200,000. Of this amount, the church has designated \$15,000 as cash for school operations.
- ▶ The \$200,000 of cash for the church must have the same audit procedures completed as the \$10,000 from the school.

Schedule 3B:

		ASSETS	
Line	Item		June 30, 2014
Current Assets			
1	Cash		10,000
2	Cash Held by (Due To) Operating Organization <i>same legal entity as school</i>		15,000

Operating Organization Funding– Same Legal Entity

Example 2:

- ▶ The church and school are the same legal entity.
- ▶ The school has chosen to only include the school's activity and balances in the FIR.
- ▶ The church paid expenditures of \$25,000 for the school. The organization will move the \$25,000 from the church's funds to the school's funds when the school has the funding available.
- ▶ The expenditures should be tested consistent with all expenditure testing and included in Schedule 5A as appropriate.

Schedule 3B:

Line	Item	June 30, 2014
Current Assets		
1	Cash	
2	Cash Held by (Due To) Operating Organization <i>same legal entity as school</i>	(25,000)

Operating Organization Funding– Separate Legal Entities

Example 3:

- ▶ The operating organization of the school and the school are separate legal entities.
- ▶ The school has cash of \$30,000.
- ▶ The operating organization has cash of \$100,000. Of this amount, the operating organization has pledged to provide \$22,000 for school operations.
- ▶ The operating organization must provide a pledge agreement indicating they will provide the \$22,000.

Schedule 3B:

Line	Item	June 30, 2014
Current Assets		
1	Cash	30,000
2	Cash Held by (Due To) Operating Organization <i>same legal entity as school</i>	
3	Investments	
4	Receivables	
5	Pledge Receivables (a)	22,000

Operating Organization Funding– Separate Legal Entities

Example 4:

- ▶ The operating organization of the school and the school are two separate legal entities.
- ▶ The operating organization has loaned the school \$15,000.

This amount should be included as related party debt in Schedule 5B. The related party debt will also be included in Schedule 3B.

PSCP Reserve

- ▶ Allows for schools to reserve up to 15% of net eligible cost.
- ▶ The reserve may not exceed the total of the cash, cash held by (due to) operating organization, and investment balances.
- ▶ Increases in the reserve increase net eligible program cost.
- ▶ Decrease in the reserve decrease net eligible program cost.

PSCP Reserve (cont)

- ▶ If the reserve balance is above the cash and investment balance, the funds in the reserve are considered expended and the reserve must be reduced to the cash and investment balance.
- ▶ Schools may also choose to reduce the reserve if they expend the funds for a specific purpose.
- ▶ If 15% of the net eligible cost is less than the prior year reserve amount, the school may maintain the prior year reserve (as long as it is below the cash and investment balance) but may not add to the reserve.

Year 1 –Reserve Balance

- ▶ The school has net eligible cost of \$1,000,000.
- ▶ The cash and investment balance is \$200,000.
- ▶ The school may reserve up to the lesser of \$150,000 (15% of the net eligible cost) or the cash and investment balance available to reserve.
- ▶ The school decides to reserve \$50,000. This amount should be entered on Line 35 of Schedule 3B.

Line	Item	June 30, 2013	June 30, 2014
NET PROGRAM ASSETS			
33	Restricted Food Service Balance		
34	Other Restricted Assets		
35	Unrestricted Assets-Private School Choice Programs Reserve		50,000

Year 1–Net Eligible Cost

- ▶ Since the reserve was increased by \$50,000 (from \$0), the net eligible program costs are increased by \$50,000 before determining the school's per pupil cost.

		NET ELIGIBLE PROGRAM COST	
Line	Program Cost		Amount
1	Eligible Program Cost	Schedule 5A Line 52	1,025,000
2	Less: Operating Expense Financed by Capital Asset Debt	Schedule 9 Line 4	
3	Less: Offsetting Revenue	Schedule 4 Line 23	25,000
4	Less: 2012 Summer School Net Eligible Program Costs Included Above		
5	Less: 2013 Summer School Net Eligible Program Costs Included Above		
6	NET ELIGIBLE PROGRAM COST	Lines 1 less Lines 2-5	1,000,000
7	Reserve Adjustment		50,000
8	NET ELIGIBLE PROGRAM COST WITH RESERVE ADJ	Line 6 plus Line 7	1,050,000

Year 2-Reserve Balance

- ▶ The school has net eligible cost of \$2,000,000.
- ▶ The cash and investment balance is \$350,000.
- ▶ Prior year reserve is \$50,000.
- ▶ The school may reserve up to the lesser of \$300,000 (15% of the net eligible cost) or the cash and investment balance available to reserve.
- ▶ The school decides to reserve \$125,000. This amount should be entered on Line 35 of Schedule 3B.

Line	Item	June 30, 2014	June 30, 2015
33	Restricted Food Service Balance		
34	Other Restricted Assets		
35	Unrestricted Assets-Private School Choice Programs Reserve	50,000	125,000

Year 2–Net Eligible Cost

- ▶ Since the reserve was increased by \$75,000, the net eligible program costs are increased by \$75,000 before determining the school's per pupil cost.

		NET ELIGIBLE PROGRAM COST	
Line	Program Cost		Amount
1	Eligible Program Cost	Schedule 5A Line 52	2,038,000
2	Less: Operating Expense Financed by Capital Asset Debt	Schedule 9 Line 4	
3	Less: Offsetting Revenue	Schedule 4 Line 23	38,000
4	Less: 2012 Summer School Net Eligible Program Costs Included Above		
5	Less: 2013 Summer School Net Eligible Program Costs Included Above		
6	NET ELIGIBLE PROGRAM COST	Lines 1 less Lines 2-5	2,000,000
7	Reserve Adjustment		75,000
8	NET ELIGIBLE PROGRAM COST WITH RESERVE ADJ	Line 6 plus Line 7	2,075,000

Year 3-Reserve Balance

- ▶ The school has net eligible cost of \$2,220,000.
- ▶ The cash and investment balance is \$100,000.
- ▶ Prior year reserve balance was \$125,000.
- ▶ Since the prior year reserve balance is more than the cash and investment balance, the reserve must be reduced to the cash and investment balance of \$100,000. This amount should be entered on Line 35 of Schedule 3B.

Line	Item	June 30, 2015	June 30, 2016
33	Restricted Food Service Balance		
34	Other Restricted Assets		
35	Unrestricted Assets-Private School Choice Programs Reserve	125,000	100,000

Year 3–Net Eligible Cost

- ▶ Since the reserve was decreased by \$25,000, the net eligible program costs are decreased by \$25,000 before determining the school's per pupil cost.

NET ELIGIBLE PROGRAM COST			
Line	Program Cost		Amount
1	Eligible Program Cost	Schedule 5A Line 52	2,260,000
2	Less: Operating Expense Financed by Capital Asset Debt	Schedule 9 Line 4	
3	Less: Offsetting Revenue	Schedule 4 Line 23	40,000
4	Less: 2012 Summer School Net Eligible Program Costs Included Above		
5	Less: 2013 Summer School Net Eligible Program Costs Included Above		
6	NET ELIGIBLE PROGRAM COST	Lines 1 less Lines 2-5	2,220,000
7	Reserve Adjustment		(25,000)
8	NET ELIGIBLE PROGRAM COST WITH RESERVE ADJ	Line 6 plus Line 7	2,195,000

Review Question

The school has net eligible cost of \$5,000,000. The cash and investment balance is \$100,000. What is the maximum reserve the school can establish?

\$100,000 since 15% of \$5,000,000 (\$750,000) is above the current cash balance

Review Question

A church pays for \$5,000 of educational programming related costs on behalf of the school in November 2013. The church agrees to accept payment from the school in October 2014 after the September 2014 payments are received. The church and the school are part of one umbrella organization. How would this be recorded in the FIR?

		ASSETS	
Line	Item	June 30, 2013	June 30, 2014
Current Assets			
1	Cash		
2	Cash Held by (Due To) Operating Organization <i>same legal entity as school</i>		(5,000)

<div> <div>?</div> <div>← Schedule information</div> </div>		
STATEMENT OF CASH FLOWS		
Line	Item	Amount
1	CASH BALANCE AT BEGINNING OF YEAR	
An increase in cash balance resulted from:		
2	Current Year Financing Sources Obtained	
3	Decrease in Year End Operator Held Working Cash Balance	
4	Decrease in Year End Investments	
5	Decrease in Year End Receivables	
6	Decrease in Year End Prepaid Expenses	
7	Decrease in Year End Inventories	
8	Increase in Year End Payroll and Related Benefits	
9	Increase in Tax Withholdings and FICA-Medicare	
10	Increase in Year End Vendor and Other Accounts Payable	
11	Increase in Prepaid Tuition and Other Deferred Revenue	
12	Increase in Accrued Interest Expense (Cash Flow Borrowing)	
13	Net Decrease/Increase in Other Program Assets/Liabilities	
14	Net Decrease/Increase in Related Party Assets/Liabilities	
Other increases resulting from (identified below) (a)		
15		
16		
A decrease in cash balance resulted from:		
17	Current Year Expenditures	
18	Increase in Year End Operator Held Working Cash Balance	
19	Increase in Investments	
20	Increase in Receivables	
21	Increase in Prepaid Expenses	
22	Increase in Year End Inventories	
23	Decrease in Payroll and Related Benefits	
24	Decrease in Tax Withholdings and FICA-Medicare	
25	Decrease in Vendor and Other Accounts Payable	
26	Decrease in Prepaid Tuition and Other Deferred Revenue	
27	Increase in Unpaid Cash Flow Borrowing Interest Expense	
28	Net Decrease/Increase in Other Program Assets/Liabilities	
29	Net Decrease/Increase in Related Party Assets/Liabilities	
30	Net Decrease/Increase in FIR Adjustment from (to) State	
31	Other Decreases Resulting from (identified below) (a)	
32		
33		
34	CASH BALANCE AT END OF YEAR	

(a) All Other Increases or decreases must be specifically identified increases or decreases. No "plug" may be used to get to the ending cash balance unless it is due to rounding (less than \$5.00).

•Cash flow is generally pre-filled based on revenue and expenditures included in the FIR.

•Reconciling items must be specifically identified unless due to rounding.

Review Question

Which of the following would be a proper reconciling item in the cash flow?

- a. Adjustment for book depreciation expense.
- b. Adjustment for the “principal incurred” for a capital lease.
- c. Adjustment for a contribution of a van.
- d. \$2 rounding adjustment.
- e. Accounts payable included in the prior year is forgiven.

Summer School

Schedule 2B

The existing summer school payment method
applies for 2013.

The new method will begin summer 2014.



Summer School Adjustment

Schedule 2B: Summer School Adjustment			
YEAR ENDING JUNE 30, 2013			
SUMMER SCHOOL ALL PUPIL FTE			
Line			
1	SUMMER SCHOOL ALL PUPIL FTE	Provided by DPI	
SUMMER SCHOOL PER PUPIL COST			
Line		Summer School Report	Amount
2	Operating Expense Cost	Schedule 2, Line 32	
3	Capital Asset Cost	Schedule 4, Line 13	
4	Less: Offsetting Revenue	Schedule 3, Line 7	
5	SUMMER SCHOOL NET ELIGIBLE PROGRAM COST	Line 2 plus Line 3 less Line 4	
6	SUMMER SCHOOL PER PUPIL COST	Line 5 divided by Line 1	
SUMMER SCHOOL ADJUSTMENT			
Line			
7	SUMMER SCHOOL CHOICE PUPIL FTE	Provided by DPI	
8	AUDITED AMOUNT DUE TO SCHOOL FOR SUMMER SCHOOL	Line 6 times Line 7 times 40%	
9	Amount Paid To School For Summer School	Provided by DPI	
10	SUMMER SCHOOL ADJUSTMENT AMOUNT DUE FROM (TO) STATE	Line 8 less Line 9	

- Summer School FTEs are audited with the September Enrollment Audit.
- Lines 2–4 should come directly from the summer school report. If any changes to the cost are made, a new copy of the report must be submitted to DPI.
- The net amount will be any summer school adjustment due from (to) state.

Summer School Adjustment

Schedule 1: Program Adjustment Due from (to) State Year Ending June 30, 2013			
ADJUSTMENT DUE FROM (TO) STATE			
Line			Amount
17	Choice Pupil FTE Average	Average Lines 8 and 16 (FTE Column)	0.00
18	Per Pupil Cost	Schedule 2 Line 24	0
19	Maximum Voucher Amount	DPI Identified Amount	6,442
20	Eligible Per Pupil Amount	Lesser of Line 18 or 19	0
21	Regular School Year Payment Eligibility	Line 20 Multiplied by Line 17	0
22	Regular School Year Choice Payment Checks Retained	Schedule 4 Line 2	0
23	Regular School Year Adjustment Amount Due From (To) State	Line 21 plus 22	0
24	Summer School Adjustment Amount Due From (To) State	Schedule 2B Line 10	0
25	ADJUSTMENT AMOUNT DUE FROM (TO) STATE	Line 23 plus Line 24	0

- ▶ The summer school adjustment is added to the regular school year amount to obtain the total adjustment amount due.

Summer School (cont)

Schedule 2A: Per Pupil Cost Computation

Year Ending June 30, 2013

NET ELIGIBLE PROGRAM COST			
Line	Program Cost		Amount
1	Eligible Program Cost	Schedule 5A Line 52	
2	Less: Operating Expense Financed by Capital Asset Debt	Schedule 9 Line 4	
3	Less: Offsetting Revenue	Schedule 4A Line 22	
4	Less: 2012 Summer School Net Eligible Program Costs Included Above		
5	Less: 2013 Summer School Net Eligible Program Costs Included Above		
6	NET ELIGIBLE PROGRAM COST	Lines 1 Through 5	

- Any summer school costs included in regular school year cost (lines 1–3), must be removed in order to calculate the regular school year net eligible educational program cost.
- At a minimum, the DPI would expect to see a reduction for any allocated capital asset costs, if applicable.

Summer School Payment Calculation

Accounting Requirements are the same as the normal school year requirements including:

- ▶ Eligible and Ineligible costs
- ▶ Allowed Allocation Bases
- ▶ Offsetting Revenue

Summer School Payment Calculation (cont)

- ▶ Only the summer school educational programming cost should be included.
- ▶ If the school can determine the amount of money spent directly on summer school, an allocation of costs is not required.
- ▶ All direct costs must be included in the report.
- ▶ The regular school year costs in the FIR will be decreased by the amount included in the report (including the 60% of the cost that will not be paid in the summer school report)

Summer School Calculation

- Beginning with 2014–15, schools will receive a per pupil payment of 5% of the maximum voucher amount for each eligible choice pupil that attends summer school. A participating private school may receive a per pupil payment for eligible choice pupils that attend summer school if the following are satisfied:
 - The private school offers no fewer than 19 summer days of instruction during the summer;
 - Each summer day of instruction offered by the private school is comprised of no fewer than 270 minutes of instruction; and
 - Each pupil for whom the private school seeks payment attends no fewer than 15 days of summer instruction at the private school.

Summer School Auditing

2013–14 FIR:

- ▶ The 2013–14 FIR will still include a summer school per pupil cost.

2014–15 FIR:

- ▶ The 2014–15 FIR will not require the calculation of a summer school per pupil cost.
- ▶ The summer school expenses should be included as eligible expenses in the 2014–15 FIR.
- ▶ The summer school payment in 2014–15 FIR will be included as offsetting revenue.
- ▶ The auditor will audit the pupil requirements as part of the September 2014 Enrollment Audit.

Concluding

- 1) Evaluation of errors
- 2) Final analytics
- 3) Subsequent events review–
including actual results for July and August
- 4) Going concern evaluation
- 5) Management representation letter
- 6) Opinion & report



Analytical procedures

▶ Overall Review

- Assessing the conclusions reached
- Evaluation of the overall financial statement presentation
 - Reading the financial statements and notes and considering:
 - Adequacy of evidence gathered in response to unusual or unexpected balances identified in planning the audit or during the audit
 - Unusual or unexpected balances or relationships that were not previously identified
- Could indicate additional evidence may be needed

Error Report

Error Report Year Ending June 30, 2014		
Correct Any Indicated Errors Before Filing FIR with the DPI Read (?) For Information Include This Page Immediately Behind FIR Audit Opinion		
	1. Schedule 4: Food Program Offsetting Revenue Does Not Equal Total Revenue	OK
	2. Schedule 5A-1: Rental Property Owner Reported	OK
	3. Schedule 5C: BUC School Use Percentage Reported	OK
	4. Schedule 5C: BUC Description of Non-Capitalizable Costs Reported	OK
	5. Schedule 5C: BUC Property Owner Information Reported	OK
	6. Schedule 5C: BUC Related Party Status Reported	OK
	7. Schedule 5C: BUC Location Use Reported	OK
	8. Schedule 10: "All Pupil" September Count Not Less Than Schedule 11 September Choice Count	OK
	9. Schedule 10: "All Pupil" January Count Not Less Than Schedule 11 January Choice Count	OK
	10. Cash on hand per Schedule 3B is less than the "CARRYOVER UNEXPENDED DEBT PROCEEDS" per Schedule 9	OK
	11. Schedule 3B, Schedule 8, and Schedule 9: Total Non-related Party Debt	OK
	12. Schedule 5A-1: Accountant Reported	OK
	13. Schedule 3A and 3B: The cash balance per Schedule 3A does not equal the cash balance per Schedule 3B	OK
	14. Schedule 3B: Private School Choice Programs Reserve	OK
	15. Schedule 5B: Fund Raising Cost	OK

- ▶ All errors must be resolved.
- ▶ See the [\[?\]](#) for an explanation of the error and how to resolve one.

Evaluation of Errors

- ▶ Auditor is required to evaluate based on the determined materiality.
- ▶ If the error effects per pupil cost, it should be booked.
- ▶ Qualitative Evaluation:
 - Is this an isolated incident or are there other instances of this type of error.
 - Generally difficult to isolate.
 - Is the error indicative of other errors–fraud risk or general risk?
 - Do additional procedures need to be performed to address identified errors?

Adjusting Entries

- ▶ Trace all entries made for the FIR to the trial balance provided by the school.
- ▶ Be sure that what is reported in the FIR is in agreement with what the school closes with at year end.

Cash and Net Asset Balance (Sch 12-1)

Schedule 12-1: Ratio Calculations Year Ending June 30, 2013				
CASH ON HAND AND NET ASSET BALANCE				
Line		2010-11 School Year	2011-12 School Year	2012-13 School Year
1	Cash Including Working Cash Balance Held by Operating Organization	0	0	0
2	Net Asset Balance		0	0

- ▶ How much cash is on hand?
- ▶ How has the net asset balance fluctuated over the last several years? Has it been negative? Has it been decreasing?

		WORKING CAPITAL DEFICIENCIES		
Line		2010-11 School Year	2011-12 School Year	2012-13 School Year
	Operating Obligation Funding			
3	Cash <i>FIR Schedule 3B Line 1</i>		0	0
4	Working Cash Balance <i>FIR Schedule 3B Line 2</i>		0	0
5	Investments <i>FIR Schedule 3B Line 3</i>		0	0
6	Receivables <i>FIR Schedule 3B Line 4</i>		0	0
7	Immediate Funding Available	-	-	-
8	Payroll and Related Benefits <i>FIR Schedule 3B Line 18</i>		0	0
9	Tax Withholding and FICA-Medicare <i>FIR Schedule 3B Line 19</i>		-	-
10	Vendor and Other Accounts Payable <i>FIR Schedule 3B Line 20</i>		-	-
11	Immediate Obligations Due	-	-	-
12	Net Current Obligations	-	-	-
13	Immediate Obligation Funding Percentage			
14	FIR Refund Due from [Enter as Positive Amt] to [Enter as Negative Amt] <i>FIR Schedule 3B Line 6</i>		-	0
15	Immediate Obligations Due Including FIR Adjustment	-	-	-
16	Accrued Interest (Cash Flow Borrowing) <i>FIR Schedule 3B Line 22</i>		-	-
17	Current Debt Obligation <i>FIR Schedule 3B Line 23</i>		-	-
18	Current Non-Choice Debt Obligation from Schedule 8			
19	Unpaid Operating Debt Obligation	-	-	-
20	Total Operating Obligations	-	-	-
21	Net Obligations	-	-	-
22	Operating Obligation Funding Percentage			

If the Net Current Obligation balance for 2012/13 is less than \$5,000 please summarize how the school plans to fund operations for the summer until the September 2013 choice payment.

*If the school's plan is to use funding from an operating organization, the school may provide financial statements of the operating organization as of 6/30/13 to reduce further follow up. If not initially provided, DPI may request them based on a review of the financial position in the FIR.

23	
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Working Capital Deficiencies (Sch 12-1)

- ▶ Review Net Current Obligations due. This compares the immediate funding available to the immediate obligations due. If less than \$5,000 the bottom box must be completed explaining how the school plans on paying expenditures until the next Choice payment.
- ▶ A negative Net Current Obligations should be considered when assessing going concern.

Net Income (Loss) [Sch12-2]

Schedule 12-2: Ratio Calculations Year Ending June 30, 2013				
		NET INCOME (LOSS)		
Line		2010-11 School Year	2011-12 School Year	2012-13 School Year
24	Total Financing Sources <i>FIR Schedule 4 Line 23 [Pre 2012-13 Sch 4A, Ln 22]</i>			0
25	Current Year Expenditures <i>FIR Schedule 3A Line 17</i>			0
26	Net Income (Loss)	0	0	0

- ▶ **Net Income (Loss):** Has the school had a loss(es) over the last years?

Percentage of Net Pupil Cost Funded by Choice Payment Eligibility (Sch 12-2)

- Provides an indicator of the school's ability to raise funds to support instructional programs from non-Choice revenue. The ability of the school to obtain outside (non-Choice) funds is an important factor in whether or not the school will be able to offset an accumulated deficit.

PERCENTAGE OF NET PUPIL COST FUNDED BY CHOICE PAYMENT ELIGIBILITY				
Line		2010-11 School Year	2011-12 School Year	2012-13 School Year
27	Regular School Year Choice Payment Eligibility <i>FIR Schedule 1 Line 21 [Pre 2012-13 FIR Schedule 1 Line 24]</i>			0
28	Summer School Choice Payment Eligibility <i>FIR Schedule 2B Line 8 [N/A Pre 2012-13]</i>			
29	Total Choice Revenue	0	0	0
30	Total Financing Sources <i>FIR Schedule 4 Line 23</i>	0	0	0
31	LESS: Regular School Year Choice Revenue <i>FIR Schedule 4 Line 2 [Pre 2012-13 all Choice Revenue was on Line 2]</i>			0
32	LESS: Summer School Choice Revenue <i>FIR Schedule 4 Line 22 [N/A Pre 2012-13]</i>			0
33	LESS: Debt Receipts <i>Total of FIR Schedule 4 Line 17-18</i>			0
34	Net Non-Choice Revenue	0	0	0
35	Percent of Cost Funded by Choice Payments			

Rollforward of Amount Due Government Agencies (Sch 12-2)

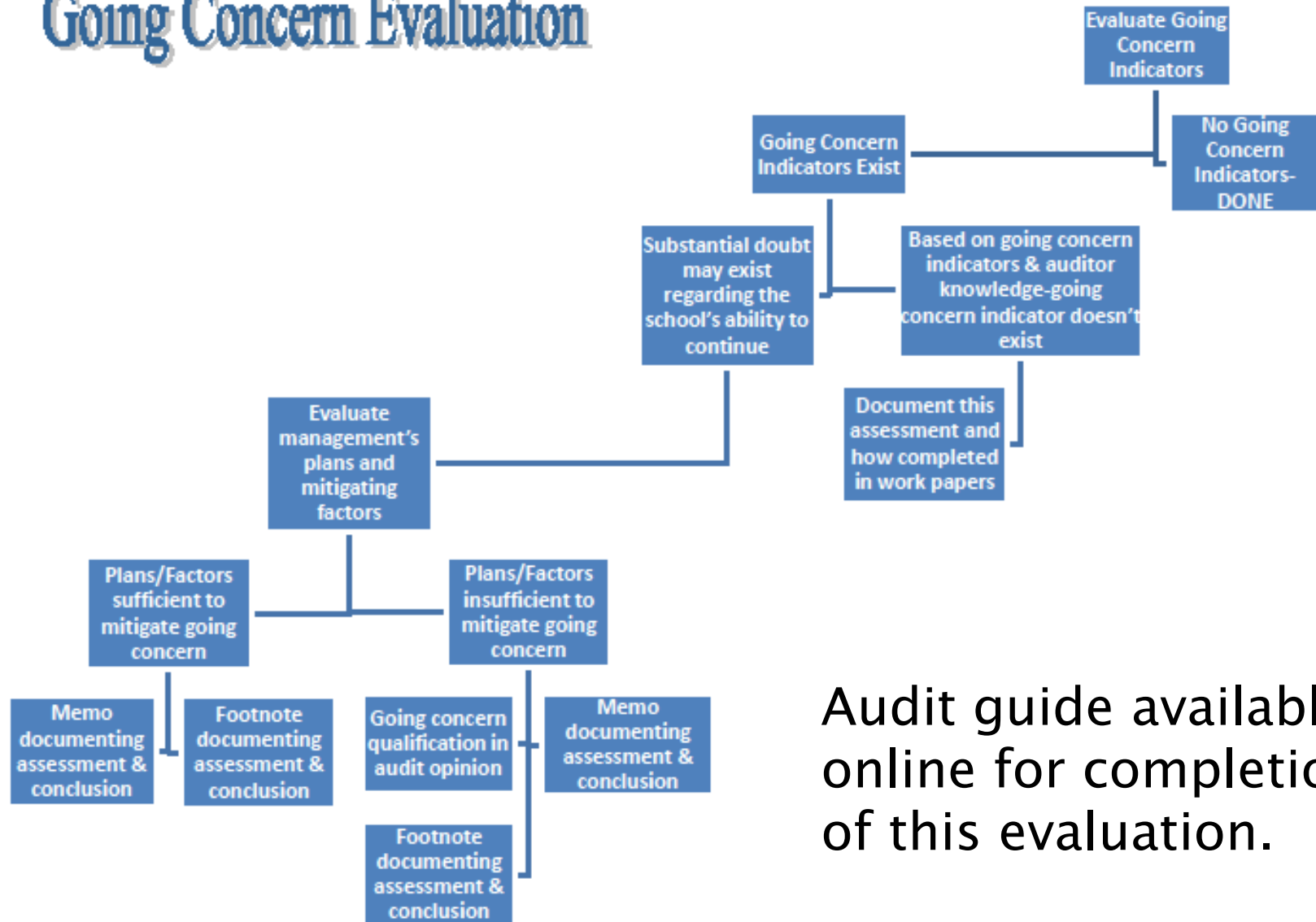
ROLLFORWARD OF AMOUNT DUE GOVERNMENT AGENCIES

Note: The following schedule must include all amounts due government agencies including payroll withholdings. The schedule must be completed by all schools even if the school has no past due balances or has a \$0 balance at the end of the year.

?	If exempt from Department of Workforce Development (DWD) payments, please explain the relationship/situation that qualifies the school for the exemption:			
	If exempt from DWD payments due to church/religious affiliation, please indicate the organization the exemption is through:			
Line		IRS	Department of Revenue	DWD
Amount Due Net of Interest and Penalties				
36	6/30/12 Balance			
37	Additional Incurred			
38	Amount Paid (a)			
39	Amount Forgiven			
40	6/30/13 Balance	-	-	-
41	Past Due Amount included in Line 37 if none insert 0			
Interest and Penalties per the GOVERNMENT AGENCY				
42	6/30/12 Balance			
43	Additional Incurred			
44	Amount Paid (a)			
45	Amount Forgiven			
46	6/30/13 Balance	-	-	-
47	Total Amount Due	-	-	-

- **Additional Incurred:** Additional liability the school must pay. This includes the employee portion withheld from the employees' checks. All schools will have this.
- **Amount paid:** Amount paid to the government organization.
- Past due amounts and the interest and penalties per the government agencies must be disclosed as applicable.
- If DWD column is not completed, the school must disclose why they do not need to pay DWD payments in the top two boxes.

Going Concern Evaluation



Audit guide available online for completion of this evaluation.

Standard Footnotes

All schools:

- ✓ Operating structure, including disclosure of locations and accounting method for locations
- ✓ Summary of significant accounting policies including basis of presentation and basis of accounting
- ✓ Use of estimates
- ✓ Deferred revenue
- ✓ Concentrations
- ✓ Litigation
- ✓ Subsequent events

As applicable:

- ✓ Restatement of prior year numbers including what changed and if it has an effect on the prior year per pupil cost
- ✓ Line of credit
- ✓ Debt agreements
- ✓ Operating leases
- ✓ Capitalize lease obligations
- ✓ Break out disclosures required on schedules (e.g. Other Revenues)
- ✓ Offsetting revenue
- ✓ Related parties (including rent, debt, vendor relationships, operating organizations, etc)
- ✓ Fixed asset disposals & purchases
- ✓ Investments
- ✓ Going concern

Audit documentation

AU Section 230



Form Content & Extent

AU-C Section 230.08 The auditor should prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

- a. the nature, timing, and extent of the audit procedures performed to comply with GAAS and applicable legal and regulatory requirements;
- b. the results of the audit procedures performed, and the audit evidence obtained; and
- c. significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

Form Content & Extent (cont)

- ▶ AU-C Section 230.09 In documenting the nature, timing, and extent of audit procedures performed, the auditor should record
 - ▶ a. the identifying characteristics of the specific items or matters tested;
 - ▶ b. who performed the audit work and the date such work was completed;
 - ▶ c. who reviewed the audit work performed and the date and extent of such review.

Form Content & Extent (cont)

- ▶ Oral explanations on their own do not represent sufficient support for the work performed or conclusions reached. This includes:
 - School use percentages.
 - Determination of if a cost is related to educational programming.
 - Determination of if there is outstanding litigation.
 - Fraud and risk assessments.
- ▶ PI 35 also specifically states that oral documentation is insufficient.

Form Content & Extent (cont)

AU-C Section 230.12 The form, content, and extent of audit documentation depend on factors such as

- ▶ the size and complexity of the entity.
- ▶ the nature of the audit procedures to be performed.
- ▶ the identified risks of material misstatement.
- ▶ the significance of the audit evidence obtained.
- ▶ the nature and extent of exceptions identified.
- ▶ the need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
- ▶ the audit methodology and tools used.
- ▶ the extent of judgment involved in performing the work and evaluating the results.

Questions?

- ▶ Bulletins explaining the PSCP reserve, FMV appraisal, BUC, and Summer School are available at http://sms.dpi.wi.gov/sms_mpinfbul.